**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

**If you are in any doubt** as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold or transferred** all your shares in Zall Development Group Ltd., you should at once hand this circular to the purchaser or transferee or to the bank, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for onward transmission to the purchaser or the transferee.

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ZALL Development

**Zall Development Group Ltd.**

**卓 爾 發 展 集 團 有 限 公 司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 2098)**

# MAJOR TRANSACTION
# IN RELATION TO
# ACQUISITION OF INTEREST IN, AND WARRANT ISSUED BY, LIGHTINTHEBOX HOLDING CO., LTD.

A letter from the Board is set out on pages 6 to 32 of this circular.

25 May 2016

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*In this circular, the following expressions shall have the meanings set out below unless the context requires otherwise:*

| | |
|---|---|
| "Acquisition" | the issuance by the Target Company of, and subscription of the Subscription Securities by the Investor from the Target Company |
| "ADS" | American Depositary Shares, each of which represents two ordinary shares, of the Target Company |
| "Board" | the board of Directors |
| "Business Day" | means any day that is not a Saturday, a Sunday or other day on which commercial banks in New York, the PRC, the Cayman Islands, the British Virgin Islands or Hong Kong are required or authorised by law to be closed |
| "Company" | Zall Development Group Ltd. (卓爾發展集團有限公司), a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the main board of the Stock Exchange |
| "Completion" | completion of the Acquisition pursuant to the terms of the Subscription Agreement |
| "Completion Date" | the date of Completion, being 30 March 2016 |
| "Conditions" | the conditions which the respective obligations of the Target Company and/or the Investor for Completion are subject to under the Subscription Agreement |
| "connected person(s)" | has the meaning ascribed to it under the Listing Rules |
| "Consideration" | US$76.5 million, (equivalent to approximately HK$592.9 million), being the aggregate amount of consideration payable for the Subscription Securities under the Subscription Agreement |
| "Director(s)" | the director(s) of the Company |

| | |
|---|---|
| "Exercise Price" | US$2.75, subject to such adjustments in accordance with the terms of the Subscription Warrant |
| "Expiration Date" | the day that is 24 months following the Completion Date |
| "Group" | the Company and its subsidiaries |
| "HK$" | Hong Kong dollar, the legal currency of Hong Kong |
| "Hong Kong" | the Hong Kong Special Administrative Region of the People's Republic of China |
| "Investor" | Zall Cross-border E-commerce Investment Company Limited, a company incorporated in the British Virgin Islands and an indirect wholly-owned subsidiary of the Company as at the Latest Practicable Date |
| "Investor Directors" | means the two (2) individuals nominated by the Investor to be directors of the Target Company in accordance with the terms of the Subscription Agreement and the Investor's Rights Agreement |
| "Investor's Rights Agreement" | the investor rights agreement to be entered into between the Target Company, Mr. Guo, Wincore Holdings and the Investor at Completion in the form and substance agreed and set out in the Subscription Agreement |
| "Key Target Company Individuals" | Mr. Guo, Mr. Zhang Liang and Mr. Wen Xin, being individuals, collectively, beneficially hold 12,766,333 Target Company Shares and 247,539 ADS (representing 495,078 Target Company Shares) as at the Latest Practicable Date |
| "Lanting Jishi" | LightInTheBox Trading (Shenzhen) Co., Ltd., a company incorporated in the PRC with limited liability |
| "Lanting Gaochuang" | Beijing Lanting Gaochuang Technologies Co., Ltd., a company incorporated in the PRC with limited liability |

| | |
|---|---|
| "Lanting Huitong" | Shenzhen Lanting Huitong Technologies Co. Ltd., a company incorporated in the PRC with limited liability |
| "Latest Practicable Date" | 18 May 2016, being the latest practicable date prior to the printing of this circular for ascertaining certain information in the circular |
| "Listing Rules" | the Rules Governing the Listing of Securities on the Stock Exchange |
| "Mr. Guo" | Mr. Quji (Alan) Guo |
| "Outgoing Directors" | means the two (2) existing directors of the Target Company to resign from the Target Company Board in accordance with the terms of the Subscription Agreement |
| "PRC" | the People's Republic of China, excluding, for the purposes of this circular, Hong Kong, the Macau Special Administrative Region and Taiwan |
| "SEC" | the U.S. Securities and Exchange Commission |
| "Shanghai Ouku" | Shanghai Ouku Network Technologies Co., Ltd., a company incorporated in the PRC with limited liability |
| "Shareholder" | shareholder of the Company |
| "Stock Exchange" | The Stock Exchange of Hong Kong Limited |
| "Subscription Agreement" | the subscription agreement dated 17 March 2016 and entered into between the Target Company and the Investor in relation to the Acquisition |
| "Subscription Securities" | the Subscription Shares and the Subscription Warrant |
| "Subscription Shares" | the 42,500,000 Target Company Shares issued by the Target Company pursuant to the Subscription Agreement |

| | |
|---|---|
| "Subscription Warrant" | the warrant issued by the Target Company pursuant to the Subscription Agreement entitling the holder thereof to subscribe up to 7,455,000 Target Company Shares in accordance with the terms thereof |
| "Subscription Warrant Shares" | the 7,455,000 Target Company Shares issuable upon exercise of the Subscription Warrant |
| "Target Company" | Lightinthebox Holding Co., Ltd., a company incorporated under the laws of the Cayman Islands with limited liability, whose ADS are listed on the New York Stock Exchange |
| "Target Company Audited Accounts" | has the meaning ascribed to it in the section entitled "Waiver from Strict Compliance with Rules 14.67(6)(a)(i) and 14.67(7) of the Listing Rules" of this circular |
| "Target Company Board" | the board of directors of the Target Company |
| "Target Company Shares" | ordinary shares of the Target Company of par value US$0.000067 per share |
| "Target Group" | the Target Company and its subsidiaries, including the Target VIEs and their subsidiar(ies) |
| "Target VIEs" | Lanting Gaochuang, Lanting Huitong and Shanghai Ouku |
| "U.S." | United States of America |
| "US$" | United State dollar, the legal currency of U.S. |

| | |
|---|---|
| "US GAAP" | generally accepted accounting principles in the United States set forth in the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board or in such other statements by such other entity as have been approved by a significant segment of the accounting profession that are in effect from time to time, as codified and described in FASB Statement No. 18, the FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, and applied consistently throughout the periods involved |
| "Warrant Class Securities" | the outstanding securities of the same class as the Subscription Warrant Shares |
| "Warrant Holder" | the Investor or its transferees or assigns |
| "Wincore Holdings" | Wincore Holdings Limited, a company incorporated under the laws of the British Virgin Islands with limited liability |
| "%" | per cent. |

*For the purpose of this circular, unless otherwise indicated, the exchange rates at US$1.00 = HK$7.7499 has been used, where applicable, for the purpose of illustration only and does not constitute a representation that any amount has been, could have been or may be exchanged at such rate.*

ZALL Development

**Zall Development Group Ltd.**

**卓爾發展集團有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 2098)**

*Executive Directors:*
Mr. Yan Zhi *(Co-chairman and Chief executive officer)*
Dr. Gang Yu *(Co-chairman)*
Mr. Cui Jinfeng
Mr. Wang Chuang
Mr. Peng Chi

*Independent Non-executive Directors:*
Mr. Cheung Ka Fai
Mr. Wu Ying
Mr. Wei Zhe, David

*Registered Office:*
Cricket Square
Hutchins Drive
P. O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

*Principal Place of Business in Hong Kong:*
Suite 1606, 16th Floor
Two Exchange Square
Central
Hong Kong

25 May 2016

*To the Shareholders*

Dear Sir/Madam,

**MAJOR TRANSACTION**
**IN RELATION TO**
**ACQUISITION OF INTEREST IN, AND WARRANT ISSUED BY,**
**LIGHTINTHEBOX HOLDING CO., LTD.**

Reference is made to the announcement of the Company dated 17 March 2016 in relation to, among others, the Acquisition.

This circular is despatched to the Shareholders for information purposes only. No general meeting will be convened to approve the terms of, and the transactions contemplated, under the Acquisition, the Subscription Agreement and the Investor's Rights Agreement, including but not limited to the approval for the Company's exercise of the Subscription

Warrant and the acquisition of the Subscription Warrant Shares as a result of the exercise in accordance with the terms of the Subscription Warrant, as Zall Development Investment Company Limited, which is wholly-owned by Mr. Yan Zhi, an executive Director, and which is interested in 8,058,333,000 Shares, representing approximately 74.99% of the issued share capital of the Company, gave its written approval on 17 March 2016, pursuant to Rule 14.44 of the Listing Rules.

Furthermore, to the best of the knowledge, information and belief of the Directors, after having made all reasonable enquiries, no Shareholders has any material interest in the Acquisition. As such, no Shareholders would be required to abstain from voting in favour of the resolution approving the Acquisition, the Subscription Agreement and the Investor's Rights Agreement and the transaction contemplated thereunder, including but not limited to the approval for the Company's exercise of the Subscription Warrant and the acquisition of the Subscription Warrant Shares as a result of the exercise in accordance with the terms of the Subscription Warrant, if the Company were to convene a general meeting for the approval of the aforesaid.

The Acquisition was completed on 30 March 2016 and as at the Latest Practicable Date, the Company holds 42,500,000 Target Company Shares, representing 30.0% equity interest in the Target Company on a fully diluted basis.

The purpose of this circular is to provide you with, among others, (i) further details of the Acquisition, the Subscription Agreement, the Investor's Rights Agreement and the transactions contemplated thereunder; and (ii) any other information required to be disclosed under the Listing Rules.

**THE ACQUISITION**

The Board is pleased to announce that, on 17 March 2016, the Investor, an indirect wholly-owned subsidiary of the Company (as subscriber) and the Target Company (as issuer) entered into the Subscription Agreement, pursuant to which the Target Company issued and the Investor subscribed for the Subscription Securities which comprise, in aggregate, (i) the Subscription Shares, and (ii) the Subscription Warrant, at an aggregate Consideration of US$76.5 million (equivalent to approximately HK$592.9 million) which has been paid in cash.

**THE SUBSCRIPTION AGREEMENT**

The principal terms of the Subscription Agreement are set out below:

**Date**

17 March 2016

**Parties**

Issuer: the Target Company

Subscriber: the Investor

**Assets to be acquired**

The Subscription Securities, which comprise, in aggregate, (i) the Subscription Shares and (ii) the Subscription Warrant.

Assuming the Subscription Warrant has not been exercised, the Subscription Shares represent a 30.0% equity interest in the Target Company as at Completion, on a fully-diluted basis.

The Subscription Shares rank *pari passu* in all respects with the existing Target Company Shares in issue as at the close of business of the Completion Date, provided that any Target Company Shares beneficially owned by the Key Target Company Individuals are entitled to three votes per Target Company Share with respect to a "change of control" of the Target Company, as such term is defined under the memorandum and articles of association of the Target Company in effect from time to time.

The Subscription Warrant allows the Investor to further subscribe for up to 7,455,000 Target Company Shares pursuant to the terms of the Subscription Warrant. The Subscription Warrant Shares represent an additional 5% equity interest in the Target Company at Completion on a fully-diluted basis (taking into consideration the Subscription Shares, the Subscription Warrant Shares, the Target Company Shares falling to be issued upon exercise of the options of the Target Company outstanding and other Target Company Shares in issue as at Completion).

Further details of the Subscription Warrant are set out in the section headed "THE SUBSCRIPTION WARRANT" below.

**Consideration**

The Consideration is US$76.5 million (equivalent to approximately HK$592.9 million), which was paid by the Investor in cash at Completion.

The subscription price for the Subscription Shares is US$1.80 per Subscription Share (equivalent to approximately HK$13.95 per Subscription Share), which represents (i) a premium of 39.5% over the closing price of US$1.29 per Target Company Share (as represented by US$2.58 per ADS) on the New York Stock Exchange as at the date of the Acquisition Agreement, and (ii) a premium of 44.0% over the closing price of US$1.25 per Target Company Share (as represented by US$2.50 per ADS) on the New York Stock Exchange as at the Latest Practicable Date.

The Consideration was determined upon arm's length negotiations between the Investor and the Target Company with reference to among others, the prospects of the Target Company's businesses, opportunities for business cooperation between the Group and the Target Company, and the potential synergies between the businesses of the Group and that of the Target Company. The Directors consider that the Consideration was fair and reasonable and in the interest of the Company and its Shareholders taken as a whole.

The Consideration was funded by the Group by its internal resources and borrowings of the Group taking into account the sufficiency of its working capital.

**Conditions to Completion**

The respective obligations of the Target Company and the Investor for Completion were subject to the following Conditions:

(a) no provision of any applicable law nor any judgment entered by or with any governmental authority of competent jurisdiction shall be in effect that enjoins, suspends, prohibits or materially alters the terms of the transactions contemplated by the Subscription Agreement or any other transaction documents, nor any proceeding challenging the Subscription Agreement or any other transaction documents or the transactions contemplated therein, or seeking to suspend, prohibit, alter, prevent or delay Completion, shall have been instituted or be pending before any governmental authority; and

(b) the Shareholders shall have passed a resolution at a general meeting of the Company, or valid written approval by the controlling Shareholder (in lieu of holding a general meeting of the Company), if applicable, to approve the terms of, and the transactions contemplated by, the Subscription Agreement and the other transaction documents in accordance with the Listing Rules.

In addition, the obligation of the Investor for Completion was further subject to trading in the ADS not having been suspended by the SEC or the New York Stock Exchange (except for any suspensions of trading of not more than one trading day solely to permit dissemination of material information regarding the Target Company) at any time since the date of execution of the Subscription Agreement, and the ADS shall have been at all times since such date listed for trading on the New York Stock Exchange.

**Completion**

Pursuant to the terms of the Subscription Agreement, Completion took place on 30 March 2016.

**Appointment of Investor Directors**

Upon or prior to Completion, the Target Company would, subject to applicable law and the memorandum and articles of the Target Company, take any and all necessary or desirable actions as may be required under applicable law and the memorandum and articles of the Target Company (other than a shareholder's resolution) to (i) acknowledge the resignation of two (2) existing directors from the Target Company Board, (ii) cause two (2) Investor Directors to be appointed to the Target Company Board; and (iii) cause at least one (1) Investor Director to be appointed to as a member of each of the Compensation Committee and Corporate Governance and Nominating Committee of the Target Company Board.

**Cooperation and opportunities**

From and after Completion, each of the Investor and the Target Company would, and would cause its respective affiliates to, use commercially reasonable best efforts to identify potential areas (including B2B business) for business cooperation and expansion with the other party (including their affiliates). Among others, the Group is currently in active discussion with the Target Company relating to potential business cooperation for the Target Company to assist in the procurement of merchandise by the Target Company from Zallgo, the Group's e-commerce platform. As at the Latest Practicable Date, no formal agreement has been entered into between the parties pursuant to the aforesaid discussions.

## THE SUBSCRIPTION WARRANT

### Principal Terms of the Subscription Warrant

The following is a summary of the principal terms of the Subscription Warrant:

| | |
|---|---|
| Number of Target Company Shares issuable upon exercise of the Subscription Warrant: | 7,455,000 |
| Exercise period: | The Subscription Warrant shall be exercisable, in whole or in part, on or after the six (6) month anniversary of the Completion Date, and shall expire at 5.00 p.m., Beijing time, on the Expiration Date. |
| Exercise Price: | US$2.75 |
| Transferability: | The Subscription Warrant and the purchase right represented by the Subscription Warrant may not be transferred or assigned without the Target Company's prior written consent (which consent shall not be unreasonably withheld or delayed), unless the transfer or assignment is (i) a transfer to a parent, subsidiary or other affiliate of a Warrant Holder, or (ii) if (x) at the time such transfer is made, the number of Warrant Class Securities held by the Warrant Holder is less than or equal to 5% of the Warrant Class Securities outstanding at such time, and (y) the Warrant Holder transfers all Target Company Shares held by it in the same transaction to the same transferee, in which case the transfer or assignment of the Subscription Warrant shall not require the prior written consent of the Target Company, and shall in any event be subject to applicable U.S. federal and state securities laws. |

Ranking of the Subscription Warrant Shares: The Subscription Warrant Shares, when issued and fully paid, will rank *pari passu* in all respects with the existing Target Company Shares in issue as at the close of business of the date of issuance of the Subscription Warrant Shares, provided that any Target Company Shares beneficially owned by the Key Target Company Individuals are entitled to three votes per Target Company Share with respect to a "change of control" of the Target Company, as such term is defined under the memorandum and articles of association of the Target Company in effect from time to time.

Adjustments: Subject to the terms of the Subscription warrant:

**(i) Merger or Reorganization**

If at any time there shall be any reorganization, recapitalization, merger or consolidation ("**Reorganization**") involving the Target Company in which Target Company Shares are converted into or exchanged for securities, cash or other property, then, as a part of such Reorganization, lawful provision shall be made so that the Warrant Holder shall thereafter be entitled to receive upon exercise of the Subscription Warrant, the kind and amount of securities, cash or other property of the successor entity resulting from such Reorganization, equivalent in value to that which a holder of the Subscription Warrant Shares would have been entitled in such Reorganization if the right to purchase the Subscription Warrant Shares had been exercised immediately prior to such Reorganization.

**(ii) Reclassification of Shares**

If any Warrant Class Securities are changed into the same or a different number of securities of any other class or classes by reclassification, capital reorganization, conversion of all Warrant Class Securities ("**Reclassification**"), the Warrant Holder shall have the right thereafter to exercise the Subscription Warrant for a number of shares of such other class or classes of equity interests that a holder of the number of Warrant Class Securities immediately before that change would have been entitled to receive in such Reclassification.

**(iii) Sub-divisions and Combinations**

In the event that the Warrant Class Securities are subdivided into a greater number of shares of such securities, the number of Subscription Warrant Shares immediately prior to such subdivision shall be proportionately increased, and the Exercise Price shall be proportionately decreased, and in the event that the Warrant Class Securities are combined into a lesser number of shares of such securities, the number of Subscription Warrant Shares immediately prior to such combination shall be proportionately decreased, and the Exercise Price shall be proportionately increased.

**(iv) Acquisition of Target Company Shares by the Investor**

In the event that a Warrant Holder, at a price per Target Company Share that is less than the Exercise Price, acquires any Warrant Class Securities between the date of the Subscription Warrant and the Expiration Date in open market transactions (off-set in all cases, however, by any of the foregoing sold by the Warrant Holder in any transaction), the number of Target Company Shares under the Subscription Warrant shall be reduced, concurrently with such acquisition, by the number of Target Company Shares acquired by the Warrant Holder.

**The Subscription Warrant Shares**

The Company has on 17 March 2016 obtained written approval from Zall Development Investment Company Limited, which is wholly-owned by Mr. Yan Zhi, an executive Director, and which is interested in 8,058,333,000 Shares, representing approximately 74.99% of the issued share capital of the Company as at the Latest Practicable Date. Accordingly, no general meeting of the Company will be convened for the purpose of approving the Subscription Agreement, the Investor's Rights Agreement and the transactions contemplated thereunder, including but not limited to the approval for the Company's exercise of the Subscription Warrant and the acquisition of the Subscription Warrant Shares as a result of the exercise in accordance with the terms of the Subscription Warrant.

The Company sought the abovementioned written approval with respect to, among other, the Company's exercise of the Subscription Warrant and the acquisition of the Subscription Warrant Shares as this will give the Company the flexibility to acquire additional Target Company Shares by way of exercising the Subscription Warrant if the right opportunity arises, without the further delay to, if applicable, seek approval from the Shareholders. As at the Latest Practicable Date, the Company has not exercised the Subscription Warrant.

The Company will consider, among others, the current market prices of the ADS as compared to the Exercise Price for the Subscription Warrant, in determining whether to acquire the Subscription Warrant Shares by way of exercising the Subscription Warrant. Other things being equal, in the event the market price of the Target Company Shares as represented by the ADS is lower than the Exercise Price, the Company does not intend to

acquire the Subscription Warrant Shares by way of exercising the Subscription Warrant. The Company will update Shareholders in due course in the event that it exercises the Subscription Warrant to acquire the Subscription Warrant Shares in the future.

## THE INVESTOR'S RIGHTS AGREEMENT

On the Completion Date, the Target Company, Mr. Guo, Wincore Holdings and the Investor entered into the Investor's Rights Agreement to regulate certain matters in respect of the Target Company. The principal terms of the Investor's Rights Agreement are set out below:

### Parties

(1) Target Company

(2) Mr. Guo

(3) Wincore Holdings

(4) Investor

### Size and Composition of the Target Company Board

For so long as the Investor (together with any affiliates and permitted transferees) is beneficially interested in 10% or more of the total number of Target Company Shares then outstanding, the Investor shall be entitled to nominate one Investor Director (who shall be reasonably acceptable to the Target Company Board and shall meet all qualifications required by the Target Company's written policies that apply to all directors of the Target Company) for appointment or election to the Target Company Board.

For so long as the Investor (together with any affiliates and permitted transferees) is beneficially interested in 15% or more of the total number of Target Company Shares then outstanding, the Investor shall be entitled to nominate the second Investor Director (who shall be reasonably acceptable to the Target Company Board and shall meet all qualifications required by the Target Company's written policies that apply to all directors of the Target Company) for appointment or election to the Target Company Board.

For so long as the Investor has the right to nominate an Investor Director, upon the election of the Investor Director to the Target Company Board, the Investor shall be entitled to nominate one such Investor Director to serve on the Compensation Committee, the Corporate Governance and Nominating Committee of the Target Company Board, and all such other committee(s) of the Target Company Board (other than the Audit Committee) from time to time established by the Target Company in each case subject to compliance with applicable laws.

In this regard, the Investor has nominated, and the Target Company has appointed, Mr. Yan Zhi and Dr. Gang Yu as the two (2) Investor Directors to the Target Company Board with effect from the Completion Date. Dr. Gang Yu was further appointed as a member of the Compensation Committee of the Target Company Board and Mr. Yan Zhi was further appointed as a member of the Corporate Governance and Nominating Committee of the Target Company Board with effect from the Completion Date, respectively. Mr. Yan Zhi and Dr. Gang Yu are both executive Directors and Co-Chairmen of the Board of the Company.

**Lock-up**

During the period commencing on the date of the Investor's Rights Agreement and ending on the date of the six (6)-month anniversary thereof, the Investor shall not, directly or indirectly, sell, transfer or assign any of the Subscription Shares and any Subscription Warrant Shares, without the prior written consent of the Target Company, other than any sale, transfer or assignment of Subscription Shares and any Subscription Warrant Shares to an affiliate of the Investor.

**Registration Rights**

The Investor is entitled to customary U.S. registration rights under applicable U.S. securities laws with respect to the Target Company Shares.

**Restrictions on Transfer**

Subject to the terms of the Investor's Rights Agreement:

(a) if at any time, the Investor proposes to, directly or indirectly, sell, transfer or assign in a transaction pursuant to an exemption from the registration requirements under the applicable U.S. securities laws an amount of the Subscription Shares and the Subscription Warrant Shares representing 5% or more of the Target Company's

outstanding share capital to any other shareholder of the Target Company who, prior to such transfer, holds 10% or more of the Target Company's outstanding share capital, prior to taking any such action, the Investor shall first provide written notice to the Target Company Board;

(b) if at any time, the Investor proposes to, directly or indirectly, sell, transfer or assign in a transaction pursuant to an exemption from the registration requirements under the applicable U.S. securities laws an amount of the Subscription Shares and the Warrant Shares representing 10% or more of the Company's outstanding share capital (calculated on a fully-diluted basis) to any other shareholder who, prior to such transfer, holds 15% or more of the Target Company's outstanding share capital (calculated on a fully-diluted basis), then such proposed transaction shall be subject to the approval of the Target Company Board; and

(c) if, at any time, (i) the Investor proposes to, directly or indirectly, sell, transfer or assign in a transaction pursuant to an exemption from the registration requirements under the applicable U.S. securities laws any of the Subscription Shares or the Subscription Warrant Shares to any competitor of the Company (or any affiliate of any such competitor), and (ii) at the time of such proposal the Investor (including its affiliates) holds Target Company Shares or ADS (including securities issuable upon exercise of the Subscription Warrant) representing in aggregate 5% or more of the total outstanding share capital of the Target Company, then such proposed transaction shall be subject to the approval of the Target Company Board.

**Founder Restriction**

Subject to the terms of the Investor's Rights Agreement, and certain exceptions contained therein, for two (2) years from the date of the Investor's Rights Agreement, neither Mr. Guo nor Wincore Holdings shall directly or indirectly, sell, transfer or assign any equity securities of the Target Company held by them without the prior written consent of the Investor.

**Pre-emptive Right**

In the event the Target Company proposes to undertake an allotment and issuance of new securities (i) for a per Target Company Share issue price of less than US$5.40, or (ii) in such circumstances as are otherwise approved by the Target Company Board, the Investor shall have a pre-emptive right to purchase up to the Investor's pro rata share of such new securities of the Target Company.

**Stand-still Arrangement**

Unless otherwise permitted by the terms of the Investor's Rights Agreement, the Investor shall not, and the Investor shall procure that its controlled affiliates shall not, without the prior written approval of the Target Company Board, directly or indirectly (whether acting alone, as a part of a group or otherwise in concert with others): (i) acquire or enter into any agreement with any third party with respect to the acquisition of, additional voting securities of the Target Company by the Investor or its controlled affiliate that will result in the Investor and its controlled affiliates holding, in aggregate (including the Subscription Warrant Shares issuable upon exercise of the Subscription Warrant), more than 45% of the Target Company's outstanding share capital (calculated on a fully-diluted basis), (ii) advise, assist, act as a financing source for or otherwise invest in any other person for the purpose described in (i), or (iii) publicly disclose any intention, plan or arrangement with respect to any of the foregoing. If, at any time after the date of the Investor's Rights Agreement, the Investor and/or its controlled affiliates proposes to acquire any additional voting securities of the Target Company such that immediately after such acquisition the Investor and/or its controlled affiliates shall become holder(s) of 45% or more of the Target Company's outstanding share capital (calculated on a fully-diluted basis), then such proposed transaction shall be subject to the approval of the Target Company Board.

**Term of the Investor's Rights Agreement**

The Investor's Rights Agreement shall terminate, and have no further force and effect, upon the earliest of: (a) a written agreement to that effect, signed by all parties to the Investor's Rights Agreement, and (b) date following Completion on which the Investor (together with its affiliates and permitted transferees) no longer hold 10% of the total number of Target Company Shares then outstanding, and (c) the termination of the Subscription Agreement in accordance with its terms.

## INFORMATION ON THE TARGET COMPANY, WINCORE HOLDINGS AND MR. GUO

The Target Company is a company incorporated in Cayman Islands and its ADS are listed on the New York Stock Exchange under the symbol "LITB".

The Target Company is a global online retail company that delivers products directly to consumers around the world. It offers customers a convenient way to shop for a wide selection of products at attractive prices through its www.lightinthebox.com, www.miniinthebox.com and other websites and mobile applications, which are available in 27 major languages and cover more than 80% of global Internet users.

Wincore Holdings is an investment holding company incorporated under the laws of the British Virgin Islands with limited liability and Mr. Guo is the Chairman and Chief Executive of the Target Company. As at the Latest Practicable Date, Mr. Guo holds the entire issued shares outstanding in Wincore Holdings, which in turn holds 6,681,251 Target Company Shares and 233,277 ADS (representing 466,554 Target Company Shares), representing 5.1% of the existing issued and paid-up capital of the Target Company.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, the Target Company, Wincore Holdings, their respective ultimate beneficial owners and Mr. Guo were third parties independent of the Company and its connected persons as at the date of the Subscription Agreement.

**Information on certain contractual arrangements of the Target Company**

The Company has been advised by the Target Company that current PRC laws and regulations place certain restrictions on foreign ownership of companies that engage in internet and other related businesses, including the provision of internet content services. Specifically, foreign ownership in an internet content provider or other value-added telecommunications service provider may not exceed 50%. According to the Provisions on Administration of Foreign Invested Telecommunications Enterprises promulgated by the State Council on 11 December 2001 and amended on 10 September 2008, the total foreign equity ownership in a value-added telecommunications service provider must not exceed 50%. Moreover, for a foreign investor to acquire any equity interest in a value-added telecommunications business in the PRC, it must demonstrate a good track record and experience in operating value-added telecommunications services. Due to the limitation of foreign investment in value-added telecommunications services companies that provide internet information services, the Target Company (as a Cayman Islands-incorporated company) and Lanting Jishi are restricted from holding the relevant licenses that are necessary for the operations of the Target Company's PRC business.

In view of the above, the Target Company primarily relies on certain contractual arrangements in connection with the operation of its domestic websites in the PRC. This is achieved through contractual arrangements between its wholly-owned subsidiary, Lanting Jishi, Lanting Huitong and Lanting Huitong's subsidiary, Shanghai Ouku. The shareholders of Lanting Huitong are the Target Company's directors and/or executive officers who hold shares in the Target Company. These contractual arrangements allow Lanting Jishi to control Lanting Huitong and Shanghai Ouku.

The Target Company also conducts certain research and development functions through Lanting Gaochuang, which it controls through similar contractual arrangements. Due to the ownership structure of this entity, in which the Target Company's Chairman and CEO, Mr. Guo, holds 51% of the equity interest and Lanting Huitong holds 49% of the equity interest, Lanting Gaochuang is eligible to be a part of a special economic zone reserved for domestic enterprises held by Chinese nationals who have previously studied overseas.

These contractual relationships between Lanting Jishi, Lanting Huitong, Shanghai Ouku and Lanting Gaochuang include the following:

- Agreements that provide Lanting Jishi effective control over the Target VIEs:

  ○ Powers of attorney: Each shareholder of the Target VIEs has executed a power of attorney appointing Lanting Jishi to vote on his or her behalf on all of the matters concerning Target VIEs that may require shareholder's approval, including director, general manager and other executive nominations. The powers of attorney will be valid as long as the shareholders remain as shareholders of the Target VIEs.

  ○ Equity disposal agreements: Lanting Jishi, the Target VIEs and the shareholders of the Target VIEs have entered into agreements granting Lanting Jishi or its designee exclusive options to purchase, when and to the extent permitted under PRC law, all or a portion of the equity interests of the Target VIEs. The exercise price for the options to purchase all or part of the equity interests will be the minimum amount of consideration permissible under the then applicable PRC law. The agreements will be valid until Lanting Jishi or its designated party purchases all the shares from shareholders of the Target VIEs.

  ○ Spousal consent letters: Spouses of certain Lanting Huitong shareholders have acknowledged that their spouses' equity interests in Lanting Huitong will be disposed of pursuant to the equity disposal agreements, and that such spouses will not interfere with the disposition of such equity interests, including, without limitation, claiming that such equity interest constitute communal property of marriage. The spousal consent letters will be valid until the liquidation of Lanting Huitong, unless terminated earlier at Lanting Jishi's sole discretion.

- ○ Loan agreement: In December 2011, Lanting Jishi extended a loan of RMB255,000 to Mr. Guo, the Chairman and Chief Executive Officer of the Target Company, for his contribution of 51% of the registered share capital of Lanting Gaochuang. Pursuant to the loan agreement, Mr. Guo agreed that Lanting Gaochuang may not enter into any transaction that could materially affect their assets, liabilities, interests or operations without prior written consent of Lanting Jishi or its designee, and there will be no distributed earnings before the loan is repaid. The loan is only repayable by transferring all of Mr. Guo's equity interest in Lanting Gaochuang to Lanting Jishi or a third party designated by Lanting Jishi, and submitting all proceeds from such transaction to Lanting Jishi. Mr. Guo also agreed that at the request of Lanting Jishi, all or part of the equity interests held in Lanting Gaochuang shall be promptly and unconditionally transferred to Lanting Jishi or a designated third party in accordance with PRC law. The loan agreement has a term of ten years and will be extended automatically, unless indicated otherwise by Lanting Jishi in writing three months prior to the expiration date.

- Agreements that transfer economic benefits to Lanting Jishi:

  - ○ Business operation agreements: The shareholders of the Target VIEs have agreed with Lanting Jishi and the Target VIEs that the Target VIEs may not enter into any transaction that could materially affect their assets, liabilities, interest or operations without prior written consent of Lanting Jishi or its designee. In addition, Lanting Jishi has the right to nominate all directors, supervisors, chairman, general managers, controllers or other senior managers of the Target VIEs and is entitled to all dividends of the Target VIEs. Furthermore, the Target VIEs and their registered shareholders have agreed to accept and stringently implement proposals set forth by Lanting Jishi regarding employment and business and financial management. The business operation agreements will be valid until the liquidation of the Target VIEs, unless terminated earlier at Lanting Jishi's sole discretion.

  - ○ Exclusive technical support and consulting service agreements: Lanting Jishi and the Target VIEs have agreed that Lanting Jishi will provide the Target VIEs with technology support and consulting services, including the maintenance of computer rooms and websites, the provision of technology platforms required for operations, provision and maintenance of office networks, the conception, configuration, design, updating and maintenance of web pages, the maintenance of customer service platforms, employee training, advertisements, publicity and promotions, and provision of logistics support

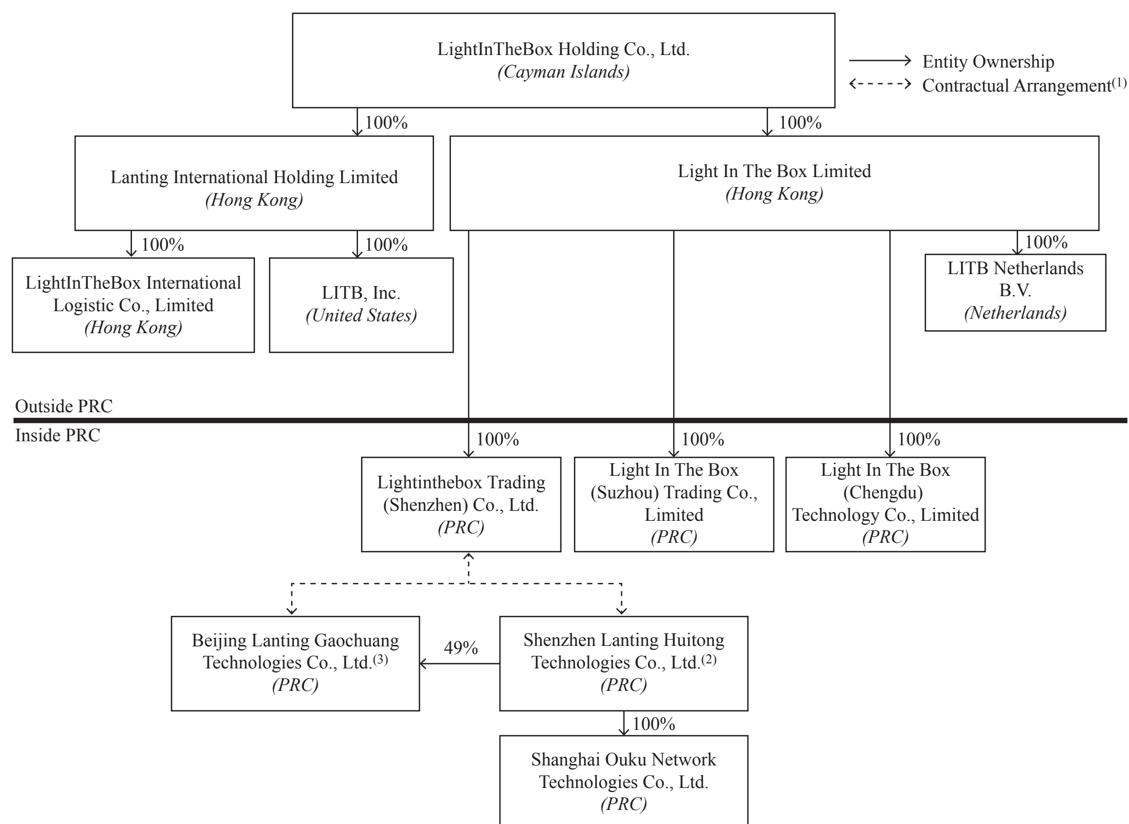
for product sales and services. The Target VIEs pay a service fee equal to substantially all of their net income, an amount equivalent to the amount of the respective Target VIEs' operating revenue for the then current quarter after the deduction of: (1) working capital necessary for the maintaining of the daily operations of the respective Target VIEs; and (2) the amount of cash required for the respective Target VIEs' capital expenditures. The exclusive technical support and consulting service agreements will be valid until the liquidation of the Target VIEs, unless terminated earlier at Lanting Jishi's sole discretion.

  - Share pledge agreements: Lanting Jishi, the Target VIEs and the shareholders of the Target VIEs have executed an agreement pursuant to which the shareholders of the Target VIEs exclusively pledge all of their equity interests in favour of Lanting Jishi to secure the Target VIEs' and the Target VIE shareholders' obligations under the contractual arrangements described above. If any Target VIE shareholder breaches its obligations under the contracts, Lanting Jishi will be entitled to certain rights, including the right to sell the pledged equity interest. The registered shareholders of the Target VIEs agreed not to transfer, sell, pledge, dispose of or otherwise create any new encumbrance on their respective equity interest in the Target VIEs, without Lanting Jishi's prior written consent. Unless terminated at Lanting Jishi's sole discretion, the share pledge agreements will be valid until the Target VIEs and their shareholders fulfil all contractual obligations under the business operation agreements, the exclusive technical support and consulting service agreements and the equity disposal agreements.

- Arrangements between the Target Company's Hong Kong subsidiary, Lanting Jishi and Lanting Huitong:

  - The Target Company's Hong Kong subsidiary, Light In The Box Limited, and its PRC subsidiary, Lanting Jishi, have entered into and performed several business information and logistics services agreements, pursuant to which Light In The Box Limited paid service fees to Lanting Jishi for certain information and logistics services. In addition, Light In The Box Limited and Lanting Huitong, entered into and performed a consulting service agreement and several software development service agreements, pursuant to which Light In The Box Limited paid service fees to Lanting Huitong for the consulting and software development services.

The following simplified diagram illustrates the flow of economic benefits from the Target VIEs to the Target Company stipulated under the abovementioned contractual arrangements:




*Notes:*

(1) Such arrangements include exclusive technical and consulting service agreements, business operation agreements, equity disposal agreements, share pledge agreements, powers of attorney, spousal consent letters (applicable only to Lanting Huitong) and a loan agreement (applicable only to Lanting Gaochuang).

(2) The shareholders of Lanting Huitong are Mr. Guo, the chairman and chief executive officer, Mr. Xin (Kevin) Wen, the executive vice president and Mr. Liang Zhang, the director and executive vice president of the Target Company, respectively.

(3) Mr. Guo holds the other 51% of the equity interest in Lanting Gaochuang.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, and as advised by the Target Company, the Target Company's principal business is not dependent or reliant on the VIE structure, and the Target VIEs and the VIE structure as a whole are not material to the Target Company's business for the following reasons:

(a) The Target VIEs are primarily engaged in research and development and support activities, as well as certain activities related to the Target Company's domestic business in China. Lanting Gaochuang primarily engages in technology research and development. Lanting Huitong primarily engages in technology research and development and support, as well as the operation of certain of the Target Company's websites in China, including www.kuailebox.com, and the general operation of its business in China. Shanghai Ouku primarily engages in product sourcing, marketing, fulfilment and the operation of the Target Company's websites targeted towards consumers in China, including www.ouku.com.

(b) Based on the annual report of the Target Company for the financial year ended 31 December 2015, the Target Company derived the vast majority of its consolidated revenues from Europe and North America, comprising 59.1% and 28.5% of its net revenues in 2015, respectively. The Target Company only derived an aggregate of 0.1% of its consolidated net revenues from Lanting Huitong and Shanghai Ouku in 2013, and none of its consolidated net revenues from Lanting Huitong and Shanghai Ouku in 2014 and 2015, respectively. The Target Company has not derived any consolidated net revenues from Lanting Gaochuang since its incorporation in December 2011, and the Target Company does not expect to derive any significant contributions to its consolidated net revenues from Lanting Gaochuang going forward, if at all. In addition, based on information provided by the Target Company, the total assets of the Target Group under the Target VIEs account for only 0.4% of the total assets of the Target Group as at 31 December 2015. Given the above, the contribution to the Target Company's business operations by the Target VIEs in terms of total assets, revenue and profits is very limited. These relatively small amounts reflect in part the Target Company's decision since the time these entities were formed to pursue a cross-border strategy rather than focus on the Chinese domestic market – which was restricted by Chinese regulations. As a result, the Target Company's primary business is focused on the overseas market, making the Target VIEs immaterial to the Target Company's business.

(c) Based on information provided by the Target Company, the Target VIEs conduct minimal, if any, product sourcing, marketing or fulfilment operations, and the Target Company is not dependent on the Target VIEs for such operations and instead relies on other subsidiaries outside of the VIE structure for its sourcing, marketing, and fulfilment, including in connection with the sale of its products targeted towards consumers outside of China. In addition, the Company has been advised by the Target Company that the Target Company is of the view that the existence of the Target VIEs was a legacy at the time of launching its business in the Chinese domestic market and believes that the research and development activities performed by Lanting Gaochuang could be replaced by a different entity not subject to foreign ownership limitations in the event that its VIE structure were unable to continue to be utilised for any future change in Chinese regulations. Further, the Target Company is primarily an online retail company rather than a company involved in the research and development of software and other technology, which means that the Target Company is not reliant or dependent on such activities as performed by Lanting Gaochuang.

**Shareholding Structure of the Target Company before and after the Acquisition**

The shareholding structure of the Target Company (i) immediately before Completion, (ii) after Completion and as at the Latest Practicable Date, and (iii) after Completion and as at the Latest Practicable Date, assuming the Subscription Warrant has been exercised in full, are set out below:

| | Immediately before Completion | | After Completion and as at the Latest Practicable Date | | After Completion and as at the Latest Practicable Date, assuming full exercise of the Subscription Warrant | |
|---|---|---|---|---|---|---|
| **Shareholder** | **Number of Ordinary Shares** | **Percentage of Shares** | **Number of Target Company Shares** | **Percentage of Shares** | **Number of Target Company Shares** | **Percentage of Shares** |
| ***Management*** | **13,261,411** | **13.4%** | **13,261,411** | **9.4%** | **13,261,411** | **8.9%** |
| Quji (Alan) Guo | 7,147,805 | 7.2% | 7,147,805 | 5.1% | 7,147,805 | 4.8% |
| Xin Wen | 3,542,541 | 3.6% | 3,542,541 | 2.5% | 3,542,541 | 2.4% |
| Liang Zhang | 2,571,065 | 2.6% | 2,571,065 | 1.8% | 2,571,065 | 1.7% |

| Shareholder | Immediately before Completion | | After Completion and as at the Latest Practicable Date | | After Completion and as at the Latest Practicable Date, assuming full exercise of the Subscription Warrant | |
|---|---|---|---|---|---|---|
| | Number of Ordinary Shares | Percentage of Shares | Number of Target Company Shares | Percentage of Shares | Number of Target Company Shares | Percentage of Shares |
| ***Pre-IPO Investors*** | **32,201,191** | **32.5%** | **32,201,191** | **22.8%** | **32,201,191** | **21.6%** |
| Ceyuan Ventures II, L.P. | 13,291,591 | 13.4% | 13,291,591 | 9.4% | 13,291,591 | 8.9% |
| GSR Ventures III, L.P. | 9,932,391 | 10.0% | 9,932,391 | 7.0% | 9,932,391 | 6.7% |
| TrustBridge Partners III, L.P. | 5,075,711 | 5.1% | 5,075,711 | 3.6% | 5,075,711 | 3.4% |
| Xiaoping Xu | 3,901,498 | 3.9% | 3,901,498 | 2.8% | 3,901,498 | 2.6% |
| ***Public Floating*** | **24,440,361** | **24.7%** | **24,726,093** | **17.5%** | **24,726,093** | **16.6%** |
| AEB Capital, LLC | 4,886,100 | 4.9% | 4,886,100 | 3.5% | 4,886,100 | 3.3% |
| Other Public Float | 19,554,261 | 19.7% | 19,839,993 | 14.0% | 19,839,993 | 13.3% |
| ***Options — outstanding*** | **1,374,050** | **1.4%** | **1,304,400** | **0.9%** | **1,304,400** | **0.9%** |
| ***Restricted Shares — outstanding*** | **3,315,264** | **3.3%** | **2,958,786** | **2.1%** | **2,958,786** | **2.0%** |
| ***Strategic Investors*** | **24,553,810** | **24.8%** | **67,053,810** | **47.4%** | **74,508,810** | **50.0%** |
| Aokang Shoes Co., Ltd. | 24,553,810 | 24.8% | 24,553,810 | 17.4% | 24,553,810 | 16.5% |
| Zall Development Group Ltd. | — | 0.0% | 42,500,000 | 30.0% | 49,955,000 | 33.5% |
| **Total Target Company Shares** | **99,146,087** | **100.0%** | **141,505,691** | **100.0%** | **148,960,691** | **100.0%** |

**Note 1:** The shareholders of the Target Company are listed on the basis of aggregate beneficial ownership, as certain persons hold through one or more holding companies.

**Note 2:** Certain of the Target Company Shares reflected in the table above are deposited with The Bank of New York Mellon in respect of ADS held by investors who are the beneficial owners of the Target Company Shares underlying the ADS.

**Note 3:** The total number of Target Company Shares and related percentage ratios assumes that all outstanding share options of the Target Company have been exercised.

**Note 4:** As at the Latest Practicable Date, the Company has not exercised the Subscription Warrant.

The Company considers the Acquisition to be a strategic investment in the Target Company and intends to hold the Subscription Shares as a long-term investment. As at the Latest Practicable Date, the Company does not have any plan to increase its shareholding in the Target Company.

**Financial information of the Target Company**

According to the audited consolidated financial statements of the Target Group for the year ended 31 December 2015 prepared in accordance with US GAAP, the net liability value and total asset value of the Target Company as at 31 December 2015 were approximately US$2,123,000 (equivalent to approximately HK$16.45 million) and approximately US$55,493,000 (equivalent to approximately HK$430.07 million), respectively.

The loss before and after taxes of the Target Group for the two financial years ended 31 December 2014 and 2015 is as follows:

| | For the year ended 31 December 2014 audited *US$'000* | For the year ended 31 December 2015 audited *US$'000* |
|---|---|---|
| **Target Group** | | |
| loss before taxes | (29,917) | (39,324) |
| net loss after taxes | (29,987) | (39,407) |

**REASONS FOR AND BENEFITS OF THE ACQUISITION**

The Investor was incorporated in the British Virgin Islands with limited liability. It is an investment holding company and is an indirect wholly-owned subsidiary of the Company as at the Latest Practicable Date.

The Group is a leading developer and operator of large-scale, consumer product-focused wholesale shopping malls, as well as commercial space provider, in China, and primarily engages in the development and operation of integrated wholesale trading platforms supported with logistics and warehousing, e-commerce and finance services.

The Group is adjusting its principal business activities and will concentrate its resources on the core business segment, i.e. the development and operating of large-scale consumer product-focused wholesale shopping malls and the related value-added business, such as warehousing, logistics, e-commerce and financial services. The Acquisition serves to further the aforesaid goals of the Group through by allowing cooperation between the Group and the Target Company, which is expected to significantly promote the integration of both parties' domestic and international trading businesses, and realise the integration

and link-up of the parties' online and offline resources. The cooperation between the Group and the Target Company is also expected to achieve synergistic effects. The Group will be able to leverage on the Target Company's strengths to develop the international trading business of Zallgo, the Group's online trading platform, and expand the sales channels for Zallgo's vendors. At the same time, the Target Company may also leverage on Zallgo's vendors and products resources as well as transaction data to optimise the purchasing and cost-control operations of its online retail business. By leveraging on the Group's extensive vendors resources, the Target Company's big data based supply chain and logistics management software platform will assist the Group's extensive vendor resources to further access markets and accelerate the process of accessing Internet by small and medium-sized logistics enterprises in China. Finally, the aforesaid cooperation marks the further online transformation of the Group's businesses. Going forward, the Group and the Target Company are expected to further explore opportunities for cooperation in areas such other cross-border trade, logistics and financial services.

The terms of the Subscription Agreement were determined after arm's length negotiations between the parties thereto and the Directors are of the view that the terms of the Subscription Agreement and transactions contemplated thereunder, including the Consideration which have been arrived at after arm's length negotiations, are on normal commercial terms and are fair and reasonable and in the interests of the Company and Shareholders as a whole.

## FINANCIAL EFFECTS OF THE ACQUISITION

Upon Completion and assuming the Subscription Warrant has been fully exercised, the Company will hold indirectly up to 33.5% of the Target Company on a fully-diluted basis. The Target Group will thus not become subsidiaries of the Company and would be accounted for using the equity method as "Investment in an associate" in the consolidated financial statements of the Group. The financial effects of the Acquisition on the Company (including their effect on the earnings, assets and liabilities of the Company) is illustrated by way of the unaudited pro forma financial information set out in Appendix III to this circular.

## LISTING RULES IMPLICATIONS

As the highest applicable percentage ratio in respect of the Acquisition exceeds 25% but is less than 100%, the transactions contemplated under the Subscription Agreement will constitute a major transaction of the Company pursuant to Rule 14.06(3) of the Listing Rules and is therefore subject to the notification, announcement and Shareholders' approval requirements under the Listing Rules.

Pursuant to Rule 14.76(2) of the Listing Rules, the Company may, at the time of entering into an option, seek any Shareholders' approval necessary for the exercise of the option. Such approval, if obtained, will be sufficient for satisfying the Shareholders' approval requirement of Chapter 14 of the Listing Rules.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, no Shareholder has any material interest in the Acquisition and no Shareholder is required to abstain from voting if the Company were to convene a general meeting for the approval of the Subscription Agreement and the transactions contemplated under it. As such, the Subscription Agreement and the transactions contemplated under it may be approved by written approval in accordance with Rule 14.44 of the Listing Rules.

The Company has on 17 March 2016 obtained written approval from Zall Development Investment Company Limited, which is wholly-owned by Mr. Yan Zhi, an executive Director, and which is interested in 8,058,333,000 Shares, representing approximately 74.99% of the issued share capital of the Company as at the Latest Practicable Date. Accordingly, no general meeting of the Company will be convened for the purpose of approving the Subscription Agreement, the Investor's Rights Agreement and the transactions contemplated thereunder, including but not limited to approving the Company's exercise of the Subscription Warrant and the acquisition of the Subscription Warrant Shares as a result of the exercise in accordance with the terms of the Subscription Warrant.

## WAIVER FROM STRICT COMPLIANCE WITH RULES 14.67(6)(A)(I) AND 14.67(7) OF THE LISTING RULES

### Background

Pursuant to Rule 14.67(6)(a)(i) of the Listing Rules, the Company is required to include in this circular an accountants' report on the Target Group prepared in accordance with Chapter 4 of the Listing Rules. The accounts on which such report is based must relate to a financial period ended six months or less before this circular is issued, and the financial information on the Target Group must be prepared using accounting policies which should be materially consistent with those of the Company. In this regard, the Company is required under Chapter 4 of the Listing Rules to include an accountants' report on the Target Group with the financial information of the Target Group for the three financial years ended 31 December 2015 prepared under IFRS.

Rule 14.67(7) of the Listing Rules further provides that a circular issued in relation to an acquisition constituting a major transaction is required to contain, among others, a management discussion and analysis of the results of the business, company or companies being acquired covering all those matters set out in paragraph 32 of Appendix 16 to the Listing Rules for the period reported in the accountant's report.

**Waiver Sought**

As the Company considers that the strict compliance with Rule 14.67(6)(a)(i) and Rule 14.67(7) of the Listing Rules would be unduly burdensome, it has applied for waiver from strict compliance of the aforesaid Listing Rules on the following grounds:

(a) the Target Company's ADS are listed on the New York Stock Exchange. Pursuant to the requirements of New York Stock Exchange, the Target Company is required to publish its audited financial statements, on a regular basis, for each financial year. The audited financial statements of the Target Company for the three (3) financial years ended 31 December 2013, 2014 and 2015 (the "**Target Company Audited Accounts**") were published and made available at http://ir.lightinthebox.com and the U.S. Securities and Exchange Commission's Electronic Data Gathering Analysis and Retrieval (EDGAR) System at http://www.sec.gov. The Target Company Audited Accounts have been prepared and audited in accordance with US GAAP and are audited by the independent auditors of the Target Company, Deloitte Touche Tohmatsu Certified Public Accountants LLP. Deloitte Touche Tohmatsu Certified Public Accountants LLP has expressed an unmodified opinion on the Target Company Audited Accounts;

(b) upon Completion and assuming the Subscription Warrant has been fully exercised, the Company will hold indirectly up to 33.5% of the Target Group as at Completion on a fully-diluted basis, and the Target Group will not become subsidiaries of the Company and will be accounted as associated companies of the Company; and

(c) the Company has no access to additional financial information of the Target Company save for the financial information published by the Target Company in the public domain. Even if the Company were granted access to such additional financial information by the Target Company, in order to fully comply with the requirements of Rule 14.67(6)(a)(i) of the Listing Rules, the auditors of the Company would need to undertake a considerable amount of work to carry out audit procedures in accordance with International Standards on Auditing issued by International Federation of Accountants through the International Auditing and Assurance Standards Board on each of the entities comprising the Target Group, and prepare

financial statements on the Target Group in conformity with International Financial Reporting Standards for the financial years ended 31 December 2013, 2014 and 2015. The Company considers that it would be overly burdensome for the Company to complete the audit, and the benefits of such work may not justify the additional work and expenses involved and a significant delay in the issue of the Circular. For the same reasons, the Company is also not in the position to prepare the relevant management discussion and analysis of the results of the Target Company in accordance with Rule 14.67(7) of the Listing Rules.

## ALTERNATIVE DISCLOSURE

The Company has included the following information in this circular as alternative disclosure to an accountants' report under Chapter 4 of the Listing Rules:

(a) the Target Company Audited Accounts audited by Deloitte Touche Tohmatsu Certified Public Accountants LLP and prepared in accordance with US GAAP, included in Appendix II of this circular;

(b) a summary of the material differences between the accounting policies adopted by the Target Company and those adopted by the Company, including a line-by-line reconciliation of the statements of comprehensive income and balance sheets of the Target Company addressing the material differences, other than presentational differences, which would have a significant effect on the Target Company Audited Accounts had they been prepared in accordance with the accounting policies presently adopted by the Company. The difference reconciliation would be reported on by Deloitte Touche Tohmatsu in accordance with Hong Kong Standard of Assurance Engagement 3000; and

(c) supplementary financial information of the Target Company which is required to be disclosed in an accountants' report pursuant to the requirements of Chapter 4 of the Listing Rules but not included in the Target Company Audited Accounts.

The Company considers that the alternative disclosure described above would provide relevant, meaningful and reliable information on the financial position of the Target Company for the financial years ended 31 December 2013, 2014 and 2015, and the preparation of the accountant's report of the Target Group for inclusion in this circular in strict compliance with the requirements of Rules 14.67(6)(a)(i) and 14.67(7) of the Listing Rules would be unduly burdensome and would result in unnecessary time and effort being incurred that may not add much value to the Shareholders in understanding the financial position of the Target Company.

Based on the information provided by the Company and the alternative disclosure described above, the Stock Exchange has granted the Company waiver from strict compliance with the requirements under Rules 14.67(6)(a)(i) and 14.67(7) of the Listing Rules, subject to the disclosure of the waiver (including details and reasons) in this circular.

## RECOMMENDATION

The Directors (including the independent non-executive Directors) considers that the terms of the Subscription Agreement are fair and reasonable and the entering into of the Subscription Agreement, the Investor's Rights Agreement and the transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole.

## ADDITIONAL INFORMATION

Your attention is drawn to the information set out in the appendices to this circular.

Yours faithfully,
By Order of the Board
**Zall Development Group Ltd.**
**Yan Zhi**
*Co-chairman*

## 1. FINANCIAL INFORMATION OF THE GROUP

The audited consolidated financial statements of the Group (i) for the year ended 31 December 2015 is disclosed in the 2015 annual report of the Company published on 20 April 2016, from pages 48 to 139, (ii) the year ended 31 December 2014 is disclosed in the 2014 annual report of the Company published on 24 April 2015, from pages 48 to 135, and (iii) for the year ended 31 December 2013 is disclosed in the 2013 annual report of the Company published on 10 April 2014, from pages 51 to 136, all of which have been published on the website of the Stock Exchange (www.hkex.com.hk) and the website of the Company (www.zallcn.com).

## 2. STATEMENT OF INDEBTEDNESS

As at the close of business on 31 March 2016, being the latest practicable date for the purpose of determining this indebtedness of the Group prior to the printing of this circular, the Group had the following:

| | *RMB* |
|---|---|
| Bank loans and loans from other financial institutions: | |
| Short-term loans | |
| — secured | 2,109,359,822 |
| — unsecured | 30,000,000 |
| Long-term loans | |
| — secured | 5,013,765,619 |
| — unsecured | — |
| Guarantees: | 1,270,397,652 |
| **Total:** | 8,423,523,093 |

Save as aforementioned, at the close of business on 31 March 2016, the Group did not have any other outstanding borrowings, loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances (other than normal trade bills), acceptance credits, debentures, mortgages, charges, finance leases, hire purchase commitments, guarantees or other material contingent liabilities.

## 3. WORKING CAPITAL

The Directors are of the opinion that, after taking into account the Acquisition, the internal resources available to the Group, presently available banking facilities and in the absence of unforeseen circumstances, the Group will have sufficient working capital for its present requirements for the next 12 months from the date of this circular.

## 4. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material change in the financial or trading position or outlook of the Group since 31 December 2015, the date to which the latest audited consolidated financial statements of the Group were made up, up to and including the Latest Practicable Date.

## 5. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

As the global manufacturing centre as well as a giant in the internet industry, China enjoys exceptional advantages to become the world's commodities exchange centre. The Group has been taking root on trading circulation area for years, and has been noticing the trends and opportunities in the development of the internet in recent years. Since mid-2015, the Group has comprehensively embraced the internet, and actively promoted the Group's transformation by proposing the "Zall Cloud Market" program with "wholesale + internet" to create a global trading platform.

The Group has a relatively large-scale offline entity trading and logistics market, comprising over 20 specialized wholesale markets with more than 20,000 merchants. As the Group held the "China Wholesale Market Annual Meeting" and "China North Hankou Trade Fair" for recent successive years, it has built and maintained good communication and cooperation with the main wholesale markets in different regions of China, including Yiwu, Guangzhou, Kunming, Chengdu, Xi'an and Shenyang. The Group launched the "Zall Cloud Market" program, based on the properties, clients, logistics and data basis and advantages of the offline entity trading markets with North Hankou International Trade Centre, Tianjin Zall E-commerce Mall, Jingzhou Zall City, etc. as representation, to achieve full integration of various entity wholesale markets and e-commerce throughout the country, to reduce supply chain costs of China's wholesale segment, to improve operating efficiency, and to build China's largest integrated online and offline wholesale trading platform. Zall Cloud Market includes three online trading and service platforms, namely Zallgo, Zalljinfu and Zallfuhui, which serve online transactions of wholesale trading, financing

support and smart logistics respectively to form a closed loop of big data integration services. By the end of February 2016, (1) Zallgo's transaction amount exceeded RMB4.3 billion and registered business operators reached 9,654, (2) Zalljinfu's total financing amounted to RMB1.1 billion and registered users reached 60,000, and (3) Zallfuhui's service charges amounted to RMB180 million and registered users reached 12,000.

The Group expects the Acquisition to further the transformation of the Group's business model towards assisting online trading of China's offline wholesale markets and providing online trading, financing and logistics services. The Group will continue to develop a cloud market trading and service system combining online and offline businesses, and actively promote cross-border trading, customer-end business, integrated logistics, financial services, intelligent payment hardware and system integration, with the aim to form the world's largest B2B trading platform and database for consumer goods.

The Group believes that its trading platform business will become a crucial driving force to the Group's future growth. Continuous technological innovation with respect to the Group's trading platform is expected to lead to increased efficiency and higher trading volume, increasing vendors' accessibilities and lowering cost.

## I. EXTRACT OF TARGET COMPANY ACCOUNTS

The following is an extract of the audited financial statements of LightInTheBox Holding Co., Ltd. ("**LITB**" or the "**Target Company**") for the years ended 31 December 2013, 2014 and 2015, which were prepared in accordance with general accepted accounting principle of the United States ("**U.S. GAAP**"), as extracted from the respective annual reports and financial statements of LITB for the financial years ended 31 December 2013, 2014 and 2015. These financial statements were presented in U.S. dollars in thousands except for otherwise stated.

LITB's annual reports and financial statements for the financial years ended 31 December 2013, 2014 and 2015 are available at LITB's website at <http://ir.lightinthebox.com> and the U.S. Securities and Exchange Commission's Electronic Data Gathering Analysis and Retrieval (EDGAR) System at <http://www.sec.gov>.

**LIGHTINTHEBOX 2013 ANNUAL REPORT**

**Report of Independent Registered Public Accounting Firm**

**To the Board of Directors and Shareholders of**
**LightInTheBox Holding Co., Ltd.**

We have audited the accompanying consolidated balance sheets of LightInTheBox Holding Co., Ltd. (the "Company"), its subsidiaries, its variable interest entities (the "VIEs") and its VIE's subsidiary (collectively the "Group") as of December 31, 2012 and 2013, and the related consolidated statements of operations, comprehensive loss, changes in equity (deficit), and cash flows for each of the three years in the period ended December 31, 2013. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Group is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining,

on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2012 and 2013, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2013, in conformity with accounting principles generally accepted in the United States of America.

Deloitte Touche Tohmatsu Certified Public Accountants LLP
Beijing, the People's Republic of China
April 28, 2014

**Consolidated Balance Sheets**

*(U.S. dollars in thousands, except share data and per share data, or otherwise noted)*

| | December 31, | |
|---|---|---|
| | **2012** | **2013** |
| | *$* | *$* |
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | 19,972 | 23,745 |
| Term deposit | — | 79,958 |
| Restricted cash | 1,217 | 1,360 |
| Accounts receivable | 249 | 259 |
| Inventories, net | 5,753 | 7,081 |
| Prepaid expenses and other current assets | 10,562 | 8,890 |
| Total current assets | 37,753 | 121,293 |
| Property and equipment, net | 1,792 | 3,002 |
| Intangible assets, net | — | 266 |
| Goodwill | — | 690 |
| Long-term deposit | 293 | 640 |
| TOTAL ASSETS | 39,838 | 125,891 |

| | December 31, | |
|---|---|---|
| | 2012 | 2013 |
| | *$* | *$* |
| LIABILITIES, SERIES C CONVERTIBLE REDEEMABLE PREFERRED SHARES AND EQUITY (DEFICIT) | | |
| Current Liabilities | | |
| Accounts payable (including accounts payable of the consolidated VIEs without recourse to LightInTheBox Holding Co., Ltd. of $61 and $36 as of December 31, 2012 and December 31, 2013, respectively) | 9,150 | 18,677 |
| Advance from customers (including advance from customers of the consolidated VIEs without recourse to LightInTheBox Holding Co., Ltd. of $13 and $4 as of December 31, 2012 and December 31, 2013, respectively) | 7,098 | 10,263 |
| Accrued expenses and other current liabilities (including accrued expenses and other current liabilities of the consolidated VIEs without recourse to LightInTheBox Holding Co., Ltd. of $524 and $1,449 as of December 31, 2012 and December 31, 2013, respectively) | 12,811 | 15,560 |
| Convertible notes, net of discount due to beneficial conversion feature (including convertible notes of the consolidated VIEs without recourse to LightInTheBox Holding Co., Ltd. of nil and nil as of December 31, 2012 and December 31, 2013, respectively) | 7,788 | — |
| Total current liabilities | 36,847 | 44,500 |
| TOTAL LIABILITIES | 36,847 | 44,500 |
| Commitments and contingencies *(Note 21)* | | |
| Series C convertible redeemable preferred shares ($0.000067 par value; 9,651,565 shares authorized; 9,651,565 and nil shares issued and outstanding as of December 31, 2012; liquidation value of $52,500) | 41,471 | — |

| | December 31, | |
|---|---|---|
| | 2012 | 2013 |
| | $ | $ |
| EQUITY (DEFICIT) | | |
| Series A convertible preferred shares ($0.000067 par value; 15,000,000 shares authorized; 15,000,000 and nil shares issued and outstanding as of December 31, 2012 and December 31, 2013, respectively; liquidation value of $5,000) | 5,000 | — |
| Series B convertible preferred shares ($0.000067 par value; 17,522,725 shares authorized; 17,522,725 and nil shares issued and outstanding as of December 31, 2012 and December 31, 2013, respectively; liquidation value of $11,270) | 11,270 | — |
| Ordinary shares ($0.000067 par value; 707,825,710 shares authorized; 36,680,558 and 99,194,991 shares issued and outstanding as of December 31, 2012 and December 31, 2013, respectively) | 2 | 7 |
| Additional paid-in capital | 10,459 | 153,124 |
| Accumulated deficit | (65,181) | (71,621) |
| Accumulated other comprehensive loss | (30) | (119) |
| TOTAL (DEFICIT) EQUITY | (38,480) | 81,391 |
| TOTAL LIABILITIES, SERIES C CONVERTIBLE REDEEMABLE PREFERRED SHARES AND (DEFICIT) EQUITY | 39,838 | 125,891 |

The accompanying notes are an integral part of these consolidated financial statements.

**Consolidated Statements of Operations**

*(U.S. dollars in thousands, except share data and per share data, or otherwise noted)*

| | Years ended December 31, | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | $ | $ | $ |
| Net revenues | 116,230 | 200,010 | 292,417 |
| Cost of goods sold | 77,465 | 116,465 | 165,267 |
| Gross profit | 38,765 | 83,545 | 127,150 |
| Operating expenses: | | | |
| Fulfillment | 7,124 | 10,088 | 15,963 |
| Selling and marketing | 38,465 | 53,418 | 84,245 |
| General and administrative | 16,660 | 22,369 | 31,929 |
| Impairment loss on goodwill and intangible assets | 1,928 | — | — |
| Total operating expenses | 64,177 | 85,875 | 132,137 |
| Loss from operations | (25,412) | (2,330) | (4,987) |
| Interest income | 3 | 3 | 1,606 |
| Interest expense | — | (1,884) | (1,369) |
| Loss before income taxes | (25,409) | (4,211) | (4,750) |
| Income taxes benefit (expenses) | 878 | (19) | (69) |
| Net loss | (24,531) | (4,230) | (4,819) |
| Accretion for Series C convertible redeemable preferred shares | 2,800 | 2,971 | 1,621 |
| Net loss attributable to ordinary shareholders | (27,331) | (7,201) | (6,440) |
| Net loss per ordinary share-basic | (0.76) | (0.20) | (0.09) |
| Net loss per ordinary share-diluted | (0.76) | (0.20) | (0.09) |

The accompanying notes are an integral part of these consolidated financial statements.

**Consolidated Statements of Comprehensive Loss**

*(U.S. dollars in thousands, or otherwise noted)*

| | Years ended December 31, | | |
|---|---|---|---|
| | **2011** | **2012** | **2013** |
| | *$* | *$* | *$* |
| Net loss | (24,531) | (4,230) | (4,819) |
| Other comprehensive loss, net of tax: | | | |
| Foreign currency translation adjustment, net of tax of nil | (57) | (8) | (89) |
| Total comprehensive loss | (24,588) | (4,238) | (4,908) |

The accompanying notes are an integral part of these consolidated financial statements.

## Consolidated Statements of Changes in Equity (Deficit)

*(U.S. dollars in thousands, except share data and per share data, or otherwise noted)*

| | Series A Convertible Preferred Shares | | Series B Convertible Preferred Shares | | Ordinary Shares | | Additional Paid-in Capital | Accumulated Other Comprehensive Income (Loss) | Accumulated Deficit | Total (Deficit) Equity |
|---|---|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | Shares | Amount | | | | |
| | | $ | | $ | | $ | $ | $ | $ | $ |
| Balance at January 1, 2011 | 15,000,000 | 5,000 | 17,522,725 | 11,270 | 27,246,744 | 2 | 3,575 | 35 | (30,649) | (10,767) |
| Vesting of nonvested shares | – | – | – | – | 4,951,667 | – | – | – | – | – |
| Share-based compensation | – | – | – | – | – | – | 2,093 | – | – | 2,093 |
| Accretion for Series C convertible redeemable preferred shares | – | – | – | – | – | – | – | – | (2,800) | (2,800) |
| Net loss | – | – | – | – | – | – | – | – | (24,531) | (24,531) |
| Foreign currency translation adjustment | – | – | – | – | – | – | – | (57) | – | (57) |
| Balance at December 31, 2011 | 15,000,000 | 5,000 | 17,522,725 | 11,270 | 32,198,411 | 2 | 5,668 | (22) | (57,980) | (36,062) |
| Vesting of nonvested shares | – | – | – | – | 4,482,147 | – | – | – | – | – |
| Share-based compensation | – | – | – | – | – | – | 2,695 | – | – | 2,695 |
| Accretion for Series C convertible redeemable preferred shares | – | – | – | – | – | – | – | – | (2,971) | (2,971) |
| Net loss | – | – | – | – | – | – | – | – | (4,230) | (4,230) |
| Beneficial conversion feature of convertible notes | – | – | – | – | – | – | 2,096 | – | – | 2,096 |
| Foreign currency translation adjustment | – | – | | – | – | – | – | (8) | – | (8) |
| Balance at December 31, 2012 | 15,000,000 | 5,000 | 17,522,725 | 11,270 | 36,680,558 | 2 | 10,459 | (30) | (65,181) | (38,480) |
| Conversion of preferred shares upon IPO | (15,000,000) | (5,000) | (17,522,725) | (11,270) | 42,174,290 | 3 | 59,359 | – | – | 43,092 |
| Conversion of convertible notes upon IPO | – | – | – | – | 2,224,610 | – | 8,000 | – | – | 8,000 |
| Issuance of common shares upon IPO (net of offering costs of $9,883) | – | – | – | – | 16,984,736 | 2 | 70,795 | – | – | 70,797 |
| Vesting of nonvested shares | – | – | – | – | 767,397 | – | – | – | – | – |
| Exercise of share options | – | – | – | – | 363,400 | – | 193 | – | – | 193 |
| Share-based compensation | – | – | – | – | – | – | 4,318 | – | – | 4,318 |
| Accretion for Series C convertible redeemable preferred shares | – | – | – | – | – | – | – | – | (1,621) | (1,621) |
| Net loss | – | – | – | – | – | – | – | – | (4,819) | (4,819) |
| Foreign currency translation adjustment | – | – | – | – | – | – | – | (89) | – | (89) |
| Balance at December 31, 2013 | – | – | – | – | 99,194,991 | 7 | 153,124 | (119) | (71,621) | 81,391 |

The accompanying notes are an integral part of these consolidated financial statements.

**Consolidated Statements of Cash Flows**

*(U.S. dollars in thousands, or otherwise noted)*

| | Years ended December 31, | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | $ | $ | $ |
| Net loss | (24,531) | (4,230) | (4,819) |
| Adjustments to reconcile net loss to net cash (used in) provided by operating activities: | | | |
| Depreciation and amortization | 899 | 1,031 | 1,361 |
| Share-based compensation | 2,093 | 2,695 | 4,318 |
| Write-off of rental deposit | — | 242 | — |
| Inventory provision | 515 | 218 | (420) |
| Impairment loss on intangible assets | 1,022 | — | — |
| Impairment loss on goodwill | 906 | — | — |
| Deferred tax liability | (272) | — | — |
| Amortization of debt discount | — | 1,140 | 956 |
| Interest on convertible notes | — | 744 | 413 |
| Changes in operating assets and liabilities: | | | |
| Accounts receivable | (8) | (176) | 12 |
| Inventories | (508) | (1003) | (864) |
| Prepaid expenses and other current assets | (9) | (5,807) | (1,148) |
| Long-term deposit | 74 | (225) | (337) |
| Accounts payable | 1,727 | 4,020 | 9,508 |
| Advance from customers | (118) | 3,641 | 3,130 |
| Accrued expenses and other current liabilities | 4,154 | 5,109 | 3,042 |
| Net cash (used in) provided by operating activities | (14,056) | 7,399 | 15,152 |
| Cash flows from investing activities | | | |
| Purchase of property and equipment | (1,582) | (917) | (2,451) |
| Purchase of term deposits | — | — | (79,958) |
| Deposit in restricted cash | (252) | (367) | (143) |
| Payment for business acquisition | — | — | (1,000) |
| Net cash used in investing activities | (1,834) | (1,284) | (83,552) |

| | Years ended December 31, | | |
|---|---|---|---|
| | **2011** | **2012** | **2013** |
| | *$* | *$* | *$* |
| Cash flows from financing activities | | | |
| Proceeds from issuance of convertible notes | — | 8,000 | — |
| Proceeds from exercise of share options | — | — | 193 |
| Proceeds from initial public offering | — | — | 75,030 |
| Payment of professional fees related to initial public offering | (602) | (930) | (3,127) |
| Payment of deferred consideration for Shanghai Ouku acquisition | (185) | — | — |
| Net cash (used in) provided by financing activities | (787) | 7,070 | 72,096 |
| Net (decrease) increase in cash and cash equivalents | (16,677) | 13,185 | 3,696 |
| Effect of exchange rate changes on cash and cash equivalents | 24 | 1 | 77 |
| Cash and cash equivalents at beginning of year | 23,439 | 6,786 | 19,972 |
| Cash and cash equivalents at end of year | 6,786 | 19,972 | 23,745 |
| Supplemental cash flow information: | | | |
| Income taxes (paid) refunded | 606 | (12) | (69) |
| Interest paid | — | — | (1,157) |

The accompanying notes are an integral part of these consolidated financial statements.

## Notes to the Consolidated Financial Statements

*For the years ended December 31, 2011, 2012 and 2013*

*(U.S. dollars in thousands, except share data and per share data, or otherwise noted)*

### 1. ORGANIZATION AND PRINCIPAL ACTIVITIES

LightInTheBox Holding Co., Ltd. (the "Company" or "LightInTheBox"), incorporated in the Cayman Islands in March 2008 by the five founding shareholders, together with its consolidated subsidiaries, variable interest entities ("VIEs") and VIE's subsidiary (collectively referred to the "Group"), is primarily involved in online retailing to sell and deliver products to consumers around the world.

As of December 31, 2013, details of the Company's subsidiaries, its VIEs and VIE's subsidiary are as follows:

| | Later of acquisition/ Incorporation | Place of incorporation | Percentage of legal ownership | Principal activities |
|---|---|---|---|---|
| *Subsidiaries* | | | | |
| Light In The Box Limited ("Light In The Box") | June 13, 2007 | Hong Kong | 100% | Online retail |
| Lanting International Holding Limited ("Lanting International") | December 19, 2013 | Hong Kong | 100% | Investment holding |
| LITB, Inc. | December 18, 2013 | United States | 100% | Marketing and software development and technology support |
| Lanting Jishi Trade (Shenzhen) Co., Ltd. ("WFOE" or "Lanting Jishi") | October 21, 2008 | People's Republic of China | 100% | Online retail |
| Lanting Jishi Trade (Suzhou) Co., Ltd. ("Lanting Suzhou") | December 2, 2013 | People's Republic of China | 100% | Inactive |
| LightInTheBox (UK) Limited | May 26, 2009 | United Kingdom | 100% | Inactive |
| *VIEs* | | | | |
| Shenzhen Lanting Huitong Technologies Co., Ltd. ("Lanting Huitong") | June 24, 2008 | People's Republic of China | Consolidated VIE | Software development and information technology support |
| Beijing Lanting Gaochuang Technologies Co., Ltd. ("Lanting Gaochuang") | December 6, 2011 | People's Republic of China | Consolidated VIE | Software development and information technology support |
| VIE's (Lanting Huitong's) wholly owned subsidiary Shanghai Ouku Network Technologies Co., Ltd. ("Shanghai Ouku") | August 24, 2010 | People's Republic of China | VIE's subsidiary | Online retail |

**History of the Group and corporate reorganization**

The Group commenced its operation in June 2007, with the establishment of Light In The Box in June 2007 in Hong Kong by the same five founding shareholders of the Company. Light In The Box subsequently became the Company's subsidiary through a share for share exchange in April 2008 which has been accounted for in a manner akin to a pooling of interest as if the Company had been in existence and owned Light In The Box since June 2007.

Lanting Jishi was established in October 2008 in the People's Republic of China (the "PRC") as a wholly owned subsidiary of Light In The Box.

**The VIE arrangements**

The PRC regulations currently limit direct foreign ownership of business entities providing value-added telecommunications services, advertising services and Internet services in the PRC where certain licenses are required for the provision of such services. To comply with these PRC regulations, the Company currently conducts certain aspects of its business in the PRC through Lanting Huitong and Lanting Gaochuang, both of which are VIEs.

Lanting Huitong was established by the shareholders of the Company in June 2008 in the PRC. Through the contractual arrangements (as described below) among Lanting Jishi, Lanting Huitong and the respective shareholders of Lanting Huitong, Lanting Huitong became the Group's VIE.

In order to obtain the benefit granted to domestic enterprises that are held by Chinese nationals who have previously studied overseas, the Chief Executive Officer ("CEO") and Lanting Huitong established Lanting Gaochuang in December 2011, each holding 51% and 49% of Lanting Gaochuang, respectively, in the China Beijing Wangjing Overseas Students Pioneer Park.

Through a series of contractual arrangements (as described below) among Lanting Jishi, Lanting Gaochuang and the respective shareholders of Lanting Gaochuang, Lanting Gaochuang became the Group's VIE.

**Agreements that provide Lanting Jishi effective control over Lanting Huitong and Lanting Gaochuang (collectively, the "VIEs")**

*Powers of Attorney:* Each shareholder of the VIEs has executed a power of attorney appointing Lanting Jishi or its designee to be his or her attorney and irrevocably authorizing them to vote on his or her behalf on all of the matters concerning the VIEs that may require shareholders' approval. The powers of attorney will be valid as long as the shareholders remain as shareholders of the VIEs.

*Equity disposal agreement:* The agreements granted Lanting Jishi or its designated party exclusive options to purchase, when and to the extent permitted under PRC law, all or part of the equity interests in the VIEs. The exercise price for the options to purchase all or part of the equity interests will be the minimum amount of consideration permissible under the then applicable PRC law. The agreement will be valid until Lanting Jishi or its designated party purchases all the shares from shareholders of the VIEs. The equity disposal agreement will be valid until the liquidation of the VIEs, unless terminated earlier at Lanting Jishi's sole discretion.

*Spousal consent letters:* Pursuant to spousal consent letters, the spouses of certain shareholders of Lanting Huitong acknowledged that the equity interests of Lanting Huitong held by and registered in the name of his/her spouse will be disposed of pursuant to the equity disposal and share pledge agreements. These spouses understand that such equity interests are held by their respective spouse on behalf of Lanting Jishi, and they will not take any action to interfere with the disposition of such equity interests, including, without limitation, claiming that such equity interests constitute communal property of marriage. The spousal consent letters will be valid until the liquidation of Lanting Huitong, unless terminated earlier at Lanting Jishi's sole discretion.

*Loan Agreement:* Under the loan agreement entered into in December 2011 between Lanting Jishi and the CEO, Lanting Jishi extended a loan in the amount of RMB255,000 ($40,492) to the CEO to be contributed as 51% of the registered capital of Lanting Gaochuang. Under this agreement, the CEO agrees that without prior written consent from Lanting Jishi, Lanting Gaochuang may not enter into any transaction that could materially affect its assets, liabilities, interests or operations, and there will be no earnings distribution in any form by Lanting Gaochuang before such loan has been repaid. This loan can only be repaid by transferring all of the CEO's equity interest in Lanting Gaochuang to Lanting Jishi or a third party designated by Lanting Jishi, and submitting all proceeds from such transaction to Lanting Jishi. The loan agreement has a term of ten years and will be extended automatically, unless indicated otherwise by Lanting Jishi in writing three months prior to the contract expiration date.

**Agreements that transfer economic benefits to Lanting Jishi**

*Business operation agreements:* The shareholders of the VIEs and the VIEs agreed that the VIEs may not enter into any transaction that could materially affect the assets, liabilities, interests or operations of the VIEs, without prior written consent from Lanting Jishi or other party designated by Lanting Jishi. In addition, directors, supervisors, chairman, general managers, financial controllers or other senior managers of the VIEs must be Lanting Jishi's nominees. Lanting Jishi is entitled to any dividend declared by the VIEs. The business operation agreement will be valid until the liquidation of the VIEs, unless terminated earlier at Lanting Jishi's sole discretion.

*Exclusive technical support and consulting service agreements:* Lanting Jishi agreed to provide the VIEs with technology support and consulting services. The VIEs agreed to pay a service fee annually equal to substantially all of the net income of the VIEs. The exclusive technical support and consulting service agreement will be valid until the liquidation of the VIEs, unless terminated earlier at Lanting Jishi's sole discretion.

*Share pledge agreement:* The shareholders of the VIEs pledged all of their respective equity interests in favor of Lanting Jishi to secure the obligations of the VIEs, and the shareholders under the VIE agreements, including the business operation agreements, and the exclusive technical support and consulting service agreements described above. If the VIEs or any of the shareholders of the VIEs breaches any of their respective contractual obligations under these agreements, Lanting Jishi, as pledgee, will be entitled to certain rights, including the right to sell the pledged equity interests. The shareholders of the VIEs agreed not to transfer, sell, pledge, dispose of or otherwise create any new encumbrance on their respective equity interests in the VIEs, without Lanting Jishi's prior written consent. Unless terminated at Lanting Jishi's sole discretion, each share pledge agreement will be valid till the completion of all the contractual obligations of the VIEs, or any of the shareholders of the VIEs under the various agreements, including the business operation agreements, the technical support and consulting service agreements and equity disposal agreements.

Since the Company, through Lanting Jishi, its wholly owned subsidiary, has (1) the power to direct the activities of Lanting Huitong and Lanting Gaochuang that most significantly affect their economic performance and (2) the right to receive the benefits from them, the Company is the primary beneficiary of both entities and has consolidated them as VIEs since their respective inceptions.

**Risks in relation to VIE structure**

The Group believes that Lanting Jishi's contractual arrangements with the VIEs are in compliance with the PRC law and are legally enforceable. The shareholders of the VIEs are also shareholders of the Company and therefore have no current interest in seeking to act contrary to the contractual arrangements. However, uncertainties in the PRC legal system could limit the Group's ability to enforce these contractual arrangements and if the shareholders of the VIEs were to reduce their interest in the Company, their interests may diverge from that of the Company and that may potentially increase the risk that they would seek to act contrary to the contractual terms, for example by influencing the VIEs not to pay the service fees when required to do so. The Company's ability to control the VIEs also depends on the power of attorney Lanting Jishi has to vote on all matters requiring shareholder approval in the VIEs. As noted above, the Company believes this power of attorney is legally enforceable but may not be as effective as direct equity ownership.

In addition, if the legal structure and contractual arrangements were found to be in violation of any existing PRC laws and regulations, the PRC government could:

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

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

The following consolidated financial information of the Group's VIEs and their subsidiaries was included in the accompanying consolidated financial statements as of and for the years ended, after elimination of intercompany balances and transactions within the Group:

| | **As of December 31, 2012** | **As of December 31, 2013** |
|---|---|---|
| | *$* | *$* |
| Total assets | 2,232 | 2,042 |
| Total liabilities | 1,874 | 1,489 |

| | Year ended December 31, | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | $ | $ | $ |
| Net revenues | 5,010 | 2,743 | 300 |
| Net loss | (1,078) | (204) | (179) |

| | Year ended December 31, | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | $ | $ | $ |
| Net cash provided by operating activities | 1,119 | 200 | 647 |
| Net cash used in investing activities | (894) | (298) | (798) |

There are no consolidated VIEs' assets that are collateral for the VIEs' obligations and can only be used to settle the VIEs' obligations.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of presentation**

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP").

**Basis of consolidation**

The consolidated financial statements include the financial statements of the Company, its VIEs and VIE's subsidiaries. All inter-company transactions and balances are eliminated upon consolidation.

**Use of estimates**

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the reported amount of revenues and expenses in the financial statements and accompanying notes. Actual results may differ from these estimates. The Group bases its estimates on historical experience and various other factors believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Significant accounting estimates reflected in the Group's financial statements include revenue recognition, inventories, impairment of goodwill and intangible assets, fair value of ordinary shares, share-based compensation and income taxes.

**Cash and cash equivalents**

Cash and cash equivalents consist of cash on hand, demand deposits with financial institutions and term deposits with an original maturity of three months or less.

**Term deposit**

Term deposit with an original maturity of greater than three months and less than one year is classified as held-to-maturity investments and carried at amortized cost. The term deposits mature within one year and are subject to penalty for early withdrawal before their maturity.

**Restricted cash**

Restricted cash consists of cash which is held under the Group's name in an escrow account as deposits withheld by third party payment processing agencies and the deposits fluctuate with the volume of payment processed.

**Accounts receivable**

Accounts receivable represents cash collected by the delivery service providers on behalf of the Group, as a result of completed sales transactions in the PRC under cash-on-delivery terms, and has not been remitted back to the Group. As of December 31, 2012 and 2013, there was no allowance for doubtful accounts due to the nature of the receivables which is cash collected from customers and in-transit to the Group.

**Inventories, net**

Inventories are accounted for using the first-in-first-out method, and are valued at the lower of cost or market value. Adjustments are recorded to write down the cost of inventory to the estimated market value due to slow-moving merchandise and broken assortments, which is dependent upon factors such as historical trends with similar merchandise, inventory aging, and historical and forecasted consumer demand. Write downs are recorded in cost of goods sold in the consolidated statements of operations.

**Property and equipment, net**

Property and equipment, net is stated at cost less accumulated depreciation and amortization. Depreciation and amortization are calculated on a straight-line basis over the following estimated useful lives:

| | **Useful lives** |
|---|---|
| Leasehold improvements | Lesser of the lease term or estimated useful life of the assets |
| Furniture, fixtures and office equipment | 5 years |
| Software and IT equipment | 3 years |

**Acquired intangible assets, net**

Intangible assets, other than goodwill, resulting from the acquisitions of entities accounted for using the acquisition method of accounting are estimated by management based on the fair value of assets acquired.

Identifiable intangible assets are carried at cost less accumulated amortization. Amortization of members is computed based on the estimated attrition pattern. Amortization of technology is computed using the straight-line method over the estimated useful lives.

| | **Useful lives** |
|---|---|
| Domain name/Tradename | Indefinite life |
| Technology | 3 Years |
| Members | 4 Years |

**Impairment of long-lived assets and intangible assets with definite life**

Long-lived assets, such as property and equipment and definite-lived intangible assets, are stated at cost less accumulated depreciation or amortization.

The Group evaluates the recoverability of long-lived assets, including identifiable intangible assets, with determinable useful lives, whenever events or changes in circumstances indicate that an intangible asset's carrying amount may not be recoverable. The Group compares the carrying amount of long-lived asset to the estimated undiscounted future cash flows associated with it. Impairment exists when the sum of the expected future net cash flows is less than the carrying value of the asset being evaluated. Impairment loss is calculated as the amount by which the carrying value of the asset exceeds its fair value. Fair value is estimated based on various valuation techniques, including the discounted value of estimated future cash flows. The evaluation of asset impairment requires the Group to make assumptions about future cash flows over the life of the asset being evaluated. These assumptions require significant judgment and actual results may differ from assumed and estimated amounts.

**Impairment of Goodwill and Indefinite-lived intangible assets**

Goodwill and intangible assets deemed to have indefinite useful lives are not amortized, but tested for impairment annually or more frequently if event and circumstances indicate that they might be impaired.

Goodwill represents the excess of the purchase price over the fair value of identifiable net assets acquired in business combinations. The Group performs a two-step goodwill impairment test. The first step compares the fair values of each reporting unit to its carrying amount, including goodwill. If the fair value of a reporting unit exceeds its carrying amount, goodwill is not considered impaired and the second step will not be required. If the carrying amount of a reporting unit exceeds its fair value, the second step compares the implied fair value of the affected reporting unit's goodwill to the carrying value of that goodwill. The implied fair value of goodwill is determined in a manner similar to accounting for a business combination with the allocation of the assessed fair value determined in the first step to the assets and liabilities of the reporting unit. The excess of the fair value of the reporting unit over the amounts assigned to the assets and liabilities is the implied fair value of goodwill. This allocation process is only performed for purposes of evaluating goodwill impairment and does not result in an entry to adjust the value of any assets or liabilities. An impairment loss is recognized for any excess in the carrying value of goodwill over the implied fair value of goodwill. In estimating the fair value of each reporting unit the Group estimates the future cash flows of each reporting unit, the Group has taken into consideration the overall and industry economic conditions and trends, market risk of the Group and historical information. The Group recorded an impairment loss of $906, nil and nil for the years ended December 31, 2011, 2012 and 2013, respectively.

An intangible asset that is not subject to amortization is tested for impairment at least annually or if events or changes in circumstances indicate that the asset might be impaired. Such impairment test compares the fair values of assets with their carrying value amounts and an impairment loss is recognized if and when the carrying amounts exceed the fair values. The estimates of fair values of intangible assets not subject to amortization are determined using various discounted cash flow valuation methodologies. Significant assumptions are inherent in this process, including estimates of discount rates. The Group recorded an impairment loss of $1,010, nil and nil for the years ended December 31, 2011, 2012 and 2013, respectively.

**Business combinations**

The assets acquired, the liabilities assumed, and any noncontrolling interest of the acquiree at the acquisition date, if any, are measured at their fair values as of that date. Goodwill is recognized and measured as the excess of the total consideration transferred plus the fair value of any noncontrolling interest of the acquiree, if any, at the acquisition date over the fair values of the identifiable net assets acquired. Acquisition costs are expensed when incurred. Consideration transferred in a business acquisition is measured at the fair value as of the date of acquisition. For shares issued in a business combination, if any, the Group estimates the fair value as of the date of acquisition.

**Revenue recognition**

Revenue is stated net of value added tax ("VAT") and return allowances.

The Group recognizes revenue from the sale of apparel, electronics and other general merchandise through its websites and other online platforms.

The Group recognizes revenue when the following four revenue recognition criteria are met:

(i) persuasive evidence of an arrangement exists, (ii) delivery has occurred, (iii) the selling price is fixed or determinable, and (iv) collectability is reasonably assured.

The Group defers revenue and the related product costs for shipments that are in-transit to the customer. Payments received in advance of delivery are classified as advances from customers. The Group recognizes the revenue at the time the end customers receive the products, which is typically within a few days of shipment. Amounts collected by delivery service providers but not remitted to the Group are classified as accounts receivable on the consolidated balance sheets.

Certain employees of the Group register in supplemental online outlets under their own name as these websites require registration using identity cards of individuals to sell the Group's product on behalf of the Group. The Group has contractual arrangements with these employees which require them to transfer customers' payments received to the Group for the sale of the products. The Group evaluates the sales transactions performed by certain employees on behalf of the Group to determine whether to recognize the revenues on a gross or net basis. The determination is based upon an assessment as to whether the Group acts as a principal or agent when selling the products. All of the revenues involving employees performing sales transactions on the supplemental online outlets on behalf of the Group are currently accounted for on a gross basis since the Group is the primary obligor, has general and physical inventory risk, latitude in establishing prices, discretion in supplier selection and credit risks.

In arrangements whereby certain suppliers place the products at the Group's premises, the risk and rewards of ownership of the products passed to the Group upon confirmation of orders by the Group's customers. All of the revenues involving these arrangement are accounted for on a gross basis since the Group is the primary obligor, has physical inventory risk, latitude in establishing prices, discretion in supplier selection and credit risks.

The Group periodically provides incentive offers to its customers to encourage purchases. Current discount offers, when accepted by its customers, are treated as a reduction to the purchase price of the related transaction and are included as a net amount in revenue. The Group also provides discount reward, which may only be used in the future, to customers who have made a current purchase. As the right of receiving future discount does not represent a significant and incremental discount to the customer, the discount is treated as a reduction of revenue when the future transaction takes place.

The Group established a membership program whereby a registered member earns certain points for visiting one of the Group's websites. Points could only be redeemed in connection with a future purchase. Such points, when redeemed, were charged as costs of sales at the time of future purchase. Since the points were earned not based on past sales transactions, no accrual was made at the time when earned by the registered members.

Promotional free products, which cannot be redeemed for cash are normally shipped together with current qualified sales. Cost of these promotional items or free products are recorded as cost of sales when the revenue of the current qualified sales is recognized.

The Group allows customers to return goods within a period of time subsequent to the delivery of the goods purchased. The return period varies depending on reasons for the return, which normally ranges from 7 days to 30 days. The Group estimates return allowance based on historical experience. The estimation of return allowances is adjusted to the extent that actual returns differ, or are expected to differ. Changes in the estimated return allowance are recognized through a cumulative catch-up adjustment in the period of change and will impact the amount of net revenues in that period.

Outbound shipping charges to customers are included as a part of the revenues. Outbound shipping-related costs are included in the cost of goods sold. Shipping costs incurred for sales of products and recognized as cost of goods sold were $24,589, $40,694 and $63,917 for the years ended December 31, 2011, 2012 and 2013, respectively.

VAT on sales is calculated at 17% on revenue from sale of products in the PRC and paid after deducting input-VAT on purchases. The net VAT balance between input-VAT and output-VAT is reflected in the accounts under prepaid expenses and other current assets or accrued expenses and other current liabilities.

**Cost of goods sold**

Cost of sales primarily consists of the purchase price of consumer products sold by the Group on its websites, inbound and outbound shipping charges, packaging supplies and inventory write-down. Shipping charges to receive products from its suppliers are included in inventory cost, and recognized as cost of sales upon sale of products to its customers.

**Fulfillment**

Fulfillment costs represent those costs incurred in operating and staffing the Group's fulfillment and customer service centers, including costs attributable to buying, receiving, inspecting, and warehousing inventories; picking, packaging, and preparing customer orders for shipment; payment processing and related transaction costs.

**Selling and marketing**

Selling and marketing expenses consist primarily of search engine marketing and advertising, affiliate market program expenditure, public relations expenditures; and payroll and related expenses for personnel engaged in selling, marketing and business development. The Group pays to use certain relevant key words relating to its business on major search engines and the fee is on a "cost-per-click" basis. The Group also pays commissions to participants in its affiliate program when customer referrals result in product sales, and the Group classifies such costs as selling and marketing expenses in the consolidated statements of operations. Advertising includes fees paid to on-line advertisers who assist the Group to advertise at targeted websites. Such fees are paid at fixed rate or calculated based on volume directed to the Group's website.

**General and administrative**

General and administrative expenses consist of payroll and related expenses for employees involved in general corporate functions such as accounting, finance, tax, legal, and human resources; costs associated with the use by these functions of facilities and equipment, such as depreciation expense and rent; professional fees and other general corporate costs. Also included in general and administrative expenses are payroll and related expenses for employees involved in product research and development, and systems support, as well as server charges and costs associated with telecommunications.

General and administrative expenses also include credit losses relating to fraudulent credit card activities which resulted in chargebacks from the payment processing agencies. The Group estimates chargebacks based on historical experience. The estimation of chargebacks is adjusted to the extent that actual chargebacks differ, or are expected to differ. Changes in estimated chargebacks are recognized through a cumulative catch-up adjustment in the period of change and will impact the amount of general and administrative expenses in that period.

**Fair value**

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

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

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

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

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

**Financial instruments**

Financial instruments of the Group primarily consist of cash and cash equivalents, term deposit, restricted cash, receivable from processing agencies, accounts payable, convertible notes and preferred shares. The carrying values of cash, term deposit, restricted cash, receivable from processing agencies and accounts payable approximate their fair values due to short-term maturities. The fair value of convertible notes and preferred shares is not readily available. The carrying amounts of convertible notes are measured at amortized cost adopting the effective interest method. The carrying amounts of preferred shares are measured at cost, plus any accretion to redemption value.

**Foreign currency translation**

The functional currency of the Company, Light In The Box, Lanting International, LITB, Inc. and LightInTheBox (UK) Limited is the United States dollar ("U.S. dollar"). The financial records of the Group's subsidiaries and VIE entities located in the PRC are maintained in their local currencies, the Renminbi ("RMB"), which are also the functional currencies of these entities.

Monetary assets and liabilities denominated in currencies other than the functional currency are translated into the functional currency at the rates of exchange ruling at the balance sheet date. Transactions in currencies other than the functional currency during the year are converted into functional currency at the applicable rates of exchange prevailing when the transactions occurred. Transaction gains and losses are recognized in the consolidated statements of operations.

The Group's entities with functional currency of RMB, translate their operating results and financial position into the U.S. dollar, the Group's reporting currency. Assets and liabilities are translated using the exchange rates in effect on the balance sheet date. Revenues, expenses, gains and losses are translated using the average rate for the year. Translation adjustments are reported as cumulative translation adjustments and are shown as a separate component of other comprehensive loss.

**Income taxes**

Deferred income taxes are provided using the asset and liability method. Under this method, deferred income taxes are recognized for tax credits and net operating losses available for carry forwards and significant temporary differences. Deferred tax assets and liabilities are classified as current or non-current based upon the classification of the related asset or liability in the financial statements or the expected timing of their reversal if they do not relate to a specific asset or liability. A valuation allowance is provided to reduce the amount of deferred tax assets if it is considered more likely than not that some portion of, or all of the deferred tax assets will not be realized. Current income taxes are provided for in accordance with the laws and regulations applicable to the Group as enacted by the relevant tax authorities.

The impact of an uncertain income tax position on the income tax return must be recognized at the largest amount that is more-likely-than not to be sustained upon audit by the relevant tax authority. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained. Interest and penalties on income taxes will be classified as a component of the provisions for income taxes. The Group did not recognize any income tax due to uncertain tax position or incur any interest and penalties related to potential underpaid income tax expenses for the years ended December 31, 2011, 2012 or 2013, respectively.

**Comprehensive loss**

Comprehensive loss includes net loss and foreign currency translation adjustments and is reported in the consolidated statements of comprehensive loss.

**Share-based compensation**

Share-based payment transactions with employees, such as share options are measured based on the grant date fair value of the equity instrument. The Group has elected to recognize compensation expense using the straight-line method for all employee equity awards granted with graded vesting provided that the amount of compensation cost recognized at any date is at least equal to the portion of the grant-date value of the options that are vested at that date, over the requisite service period of the award, which is generally the vesting period of the award. The estimate of forfeitures will be adjusted over the requisite service period to the extent that actual forfeitures differ, or are expected to differ, from such estimates. Changes in estimated forfeitures will be recognized through a cumulative catch-up adjustment in the period of change and will also impact the amount of share-based compensation expense to be recognized in future periods.

**Operating leases**

Leases where the rewards and risks of ownership of assets primarily remain with the lessor are accounted for as operating leases. Some of operating lease agreements of the Group contain provisions for future rent increases, rent free periods, or periods in which rent payments are reduced (abated). The total amount of rental payments due over the lease term is being charged to rent expense on the straight-line method over the term of the lease. The difference between rent expense recorded and the amount paid is credited or charged to other accrued expenses, which is included in "Accrued expenses and other current liabilities" in the accompanying consolidated balance sheets.

**Loss per share**

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

The Group's Series A convertible preferred shares, Series B convertible preferred shares and Series C convertible redeemable preferred shares are participating securities as the preferred shares participate in undistributed earnings on an as-if-converted basis. Nonvested shares are also participating securities as they enjoy identical dividend rights as ordinary shares. Accordingly, the Group uses the two-class method whereby undistributed net income is allocated on a pro rata basis to each participating share to the extent that each class may share in income for the period. Undistributed net loss is not allocated to preferred shares because they are not contractually obligated to participate in the loss allocated to the ordinary and nonvested shares.

Diluted loss per ordinary share reflects the potential dilution that could occur if securities were exercised or converted into ordinary shares. The Group had convertible preferred shares, convertible redeemable preferred shares, stock options, nonvested shares and convertible notes, which could potentially dilute basic earnings per share in the future. To calculate the number of shares for diluted income per share, the effect of the convertible preferred shares, convertible redeemable preferred shares and convertible notes is computed using the as-if-converted method; and the effect of the stock options and nonvested shares is computed using the treasury stock method.

**Significant risks and uncertainties**

The Group participates in an industry with rapid changes in regulations, customer demand and competition and believes that changes in any of the following areas could have a material adverse effect on the Group's future financial position, results of operations, or cash flows: advances and trends in e-commerce industry; changes in certain supplier and vendor relationships; regulatory or other PRC related factors; and risks associated with the Group's ability to keep and increase the market coverage.

**Concentration of credit risk**

Financial instruments that potentially expose the Group to concentrations of credit risk consist primarily of cash and cash equivalents, accounts receivable and advances to suppliers. The Group places its cash and cash equivalents with financial institutions located in the Cayman Islands, the PRC and Hong Kong. Accounts receivable primarily comprise amounts receivable from product delivery service providers. These amounts are collected from customers by the service providers upon product delivery. With respect to advances to product suppliers, the Group performs on-going credit evaluations of the financial condition of its suppliers.

**Foreign currency risk**

The RMB is not a freely convertible currency. The PRC State Administration for Foreign Exchange, under the authority of the People's Bank of China, controls the conversion of RMB into foreign currencies. The value of the RMB is subject to changes in central government policies and to international economic and political developments affecting supply and demand in the China foreign exchange trading system market. The Group's cash and cash equivalents, term deposit, and restricted cash denominated in RMB amounted to $683 and $56,602 at December 31, 2012 and 2013, respectively.

**Recent accounting pronouncements**

In July 2013, the FASB issued a pronouncement which provides guidance on financial statement presentation of an unrecognized tax benefits when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The FASB's objective in issuing this Accounting Standards Updates ("ASU") is to eliminate diversity in practice resulting from a lack of guidance on this topic in current US GAAP.

The amendments in this ASU state that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except as follows. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets.

This ASU applies to all entities that have unrecognized tax benefits when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists at the reporting date. The amendments in this ASU are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. Early adoption is permitted. The amendments should be applied prospectively to all unrecognized tax benefits that exist at the effective date. Retrospective application is permitted. The Group does not expect the adoption of this guidance will have a significant effect on its consolidated financial statements.

## 3. INVENTORIES, NET

Inventories consisted of the following:

| | As of December 31, | |
|---|---|---|
| | **2012** | **2013** |
| | *$* | *$* |
| Merchandise available for sale | 6,642 | 7,550 |
| *Less:* inventories provision for slow-moving and obsolescence | (889) | (469) |
| Total inventories, net | 5,753 | 7,081 |

## 4. PREPAID EXPENSES AND OTHER CURRENT ASSETS

Components of other current assets which are included in the prepaid expenses and other current assets are as follows:

| | As of December 31, | |
|---|---|---|
| | **2012** | **2013** |
| | *$* | *$* |
| Receivable from processing agencies *(1)* | 7,633 | 4,659 |
| Deferred offering cost | 1,188 | — |
| Prepayment to suppliers | 1,032 | 1,525 |
| Interest receivable | — | 721 |
| Option exercise receivable | — | 663 |
| Rental deposits and prepaid rents | 337 | 339 |
| VAT recoverable | 74 | — |
| Staff advance | 57 | 104 |
| Others | 241 | 879 |
| Total | 10,562 | 8,890 |

(1) Receivables from processing agencies represented cash that had been received from customers but held by the processing agencies as of December 31, 2012 and 2013. The receivables were collected by the Group subsequent to the respective period end.

## 5. PROPERTY AND EQUIPMENT, NET

The components of property and equipment are as follows:

| | As of December 31, | |
|---|---|---|
| | **2012** | **2013** |
| | *$* | *$* |
| Leasehold improvements | 1,663 | 3,043 |
| Furniture, fixtures and office equipment | 1,183 | 1,817 |
| Software and IT equipment | 1,450 | 2,099 |
| Property and equipment, gross | 4,296 | 6,959 |
| *Less:* Accumulated depreciation | (2,504) | (3,957) |
| Property and equipment, net | 1,792 | 3,002 |

Depreciation expenses incurred for the years ended December 31, 2011, 2012 and 2013 are $846, $1,031 and $1,361, respectively.

## 6. GOODWILL

During the year ended December 31, 2011, Shanghai Ouku, which was acquired in May 2010, was the only reporting unit of the Group that carried goodwill balance. Based on the impairment analysis as of December 31, 2011, the goodwill of Shanghai Ouku was fully impaired by $906 for the year ended December 31, 2011. The fair value determination of the goodwill is set out in Note 20.

On December 31, 2013, the Group acquired the fashion-focused site business from Ador Inc. This acquisition is expected to bolster talent and maximize the Group's global e-commerce sales opportunities and was recorded using the acquisition method of accounting. The acquired assets were recorded at fair value at the date of acquisition, including net working capital of $44, goodwill of $690 and other intangible assets of $266. The fair value determination of the acquired assets is set out in Note 20.

The changes in the carrying amount of goodwill and accumulated impairment losses for the years ended December 31, 2012 and 2013 were as follows:

| | 2012 | 2013 |
|---|---|---|
| | $ | $ |
| Gross amount | | |
| Beginning balance | 906 | 926 |
| Goodwill acquired during the year | — | 690 |
| Exchange difference | 20 | 14 |
| Ending balance | 926 | 1,630 |
| Accumulated impairment loss | | |
| Beginning balance | (906) | (926) |
| Changes during the year | — | — |
| Exchange difference | (20) | (14) |
| Ending balance | (926) | (940) |
| Goodwill, net | — | 690 |

## 7. ACQUIRED INTANGIBLE ASSETS, NET

The Group's intangible assets, presented in the following table, arose from the acquisition of Shanghai Ouku on May 24, 2010 and the acquisition of the fashion-focused site business from Ador Inc. on December 31, 2013.

| | December 31, 2012 | | | | December 31, 2013 | | | |
|---|---|---|---|---|---|---|---|---|
| | Gross carrying amount | Accumulated amortization | Accumulated impairment loss | Net carrying amount | Gross carrying amount | Accumulated amortization | Accumulated impairment loss | Net carrying amount |
| | $ | $ | $ | $ | $ | $ | $ | $ |
| Intangible assets not subject to amortization: | | | | | | | | |
| Trademark/Domain Name | 1,010 | — | (1,010) | — | 1,220 | — | (1,010) | 210 |
| Intangible assets subject to amortization: | | | | | | | | |
| — Technology Platform | 90 | (90) | — | — | 90 | (90) | — | — |
| — Non-compete Agreement | 9 | (7) | (2) | — | 9 | (7) | (2) | — |
| — Customer Base | 32 | (22) | (10) | — | 32 | (22) | (10) | — |
| — Technology | — | — | — | — | 36 | — | — | 36 |
| — Members | — | — | — | — | 20 | — | — | 20 |
| | 1,141 | (119) | (1,022) | — | 1,407 | (119) | (1,022) | 266 |

Due to the recurring losses and lower-than-expected performance of Shanghai Ouku, as of December 31, 2011, the Group performed an impairment assessment of intangible assets of Shanghai Ouku. Based on the assessment, the intangible assets of Shanghai Ouku were fully impaired by $1,022 for the year ended December 31, 2011. The fair value determination of the intangible assets is set out in Note 20.

The amortization expenses incurred for the years ended December 31, 2011, 2012 and 2013 were $53, nil and nil, respectively. The Group expects to record amortization expenses of $17, $17, $17, $5 and nil for the years ended December 31, 2014, 2015, 2016, 2017, and 2018, respectively.

## 8. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

| | As of December 31, | |
|---|---|---|
| | **2012** | **2013** |
| | *$* | *$* |
| Accrued payroll and staff welfare | 6,345 | 9,147 |
| Individual income tax withheld | 3,702 | 875 |
| Business tax payable | 398 | 152 |
| Accrued professional fees | 636 | 1,950 |
| Accrued advertising fees | 911 | 1,004 |
| Credit card processing charges | 370 | 401 |
| Accrued sales return *(1)* | 116 | 751 |
| Accrued chargebacks *(2)* | 85 | 100 |
| Other accrued expenses | 248 | 1,180 |
| Total | 12,811 | 15,560 |

(1) Accrued sales return represents the gross profit effect of estimated sales return at the end of each of the respective years assuming products returned had no value to the Group. Movements during the respective years are as follows:

| | **2012** | **2013** |
|---|---|---|
| | *$* | *$* |
| Balance at January 1 | 292 | 116 |
| Allowance for sales return made in the year | 5,336 | 9,897 |
| Utilization of accrued sales return | (5,512) | (9,262) |
| Balance at December 31 | 116 | 751 |

(2) Chargeback represents credit losses relating to fraudulent credit card activities which resulted in chargebacks from the payment processing agencies. For the years ended December 31, 2011, 2012 and 2013, the Group incurred chargeback of $447, $604 and $1,041, respectively, which was included in the general and administrative expenses.

## 9. CONVERTIBLE NOTES

On March 23, 2012, the Company issued convertible notes of $8,000 with a term of 18 months to certain holders of Series C redeemable convertible preferred shares. The total principal amount of $8,000 was received in March 2012. The convertible notes bore interest at 12% per annum, or 15% per annum upon an event of default, uncompounded and computed on the basis of the actual number of days elapsed.

The convertible notes would be automatically converted into the same class of equity securities upon the completion of a qualified financing event, including a qualified initial public offering ("IPO") if such qualified financing event occurred within the 18 months term. The conversion price would be equal to the per share issuance price of the equity securities issued for the qualified financing event; provided that in the event the total pre-money valuation of the Company prior to such financing event, without taking into account the convertible notes or the equity securities issued, was greater than $350,000 the conversion price would be equal to $350,000 divided by the total number of outstanding equity shares of the Company prior to such financing event which would include any shares issued or reserved for issuance under any benefit plan of the Company. The conversion price would be multiplied by 95% as the applicable conversion discount if the Company's qualified financing event took place after three months but on or before six months from the convertible note issuance date, by 90% as the applicable conversion discount if the Company's qualified financing event took place after six months but on or before 12 months from the convertible note issuance date and by 85% as the applicable conversion discount if the Company's qualified financing event took place after 12 months from the convertible note issuance date. All interest accrued under the convertible notes would be paid in cash after a qualified financing event or at maturity.

In case there was no qualified financing event occurring during the 18 months term, the convertible notes would be automatically converted into Series C redeemable convertible preferred shares upon maturity. The maturity conversion price would be equal to $255,000 divided by the total number of outstanding equity shares of the Company on the maturity date which would include any shares issued or reserved for issuance under any benefit plan of the Company, but excluding the maturity conversion shares.

A beneficial conversion feature ("BCF") of $2,096 was resulted as the estimated maturity conversion price as of December 31, 2012 was lower than the fair value of the ordinary shares on March 23, 2012, which was recognized as additional paid-in capital with a corresponding entry in debt discount. The debt discount would be amortized over the term of the convertible notes using effective interest method. During the year ended December 31, 2012, the amortized discount of $1,140 was included as part of interest income (expense) and other in the consolidated statements of operations. The embedded feature of interest rate reset upon an event of default in the convertible notes was a derivative but not subject to bifurcation as it was clearly and closely related to the economic risks and characteristics of the convertible notes.

Upon the IPO of the Company on June 11, 2013, the convertible notes were converted into 2,224,610 ordinary shares.

The carrying amount of the convertible notes was as follows:

| | As of December 31, | |
|---|---|---|
| | 2012 | 2013 |
| | $ | $ |
| Principal | 8,000 | 8,000 |
| Debt discount | (2,096) | (2,096) |
| Accumulated amortization of debt discount | 1,140 | 2,096 |
| Accrued interest | 744 | 1,157 |
| Interest paid | — | (1,157) |
| Conversion of convertible notes upon IPO | — | (8,000) |
| Carrying amount | 7,788 | — |

Amortization of debt discount and interest expense recognized related to the convertible notes was as follows:

| | 2012 | 2013 |
|---|---|---|
| | *$* | *$* |
| Amortization of debt discount | 1,140 | 956 |
| Interest at coupon rate | 744 | 413 |
| Total expense recognized | 1,884 | 1,369 |

## 10. SERIES A AND SERIES B CONVERTIBLE PREFERRED SHARES

On October 27, 2008, the Company issued 15,000,000 Series A convertible preferred shares ("Series A preferred shares") with par value of $0.000067 per share to third party investors for cash proceeds of $5,000, at an issuance price of $0.33 per Series A preferred share. As a part of this financing transaction, Series A preferred share investors required three of the Group's founding shareholders to place all of their 24,633,333 ordinary shares under restriction. (see Note 12, Nonvested Shares for more details).

The Company determined that there was no beneficial conversion feature attributable to the Series A preferred shares because the initial and subsequent adjusted conversion price of Series A preferred shares was higher than the fair value of the Company's ordinary shares on issue date of Series A preferred shares. Series A preferred shares were not redeemable.

On June 26, 2009, the Company issued 17,522,725 Series B convertible preferred shares ("Series B preferred shares") with par value of $0.000067 per share to third party investors for cash proceeds of $11,270, at an issuance price of $0.643 per Series B preferred share.

The Company determined that there was no beneficial conversion feature attributable to the Series B preferred shares because the initial and subsequent adjusted conversion price of Series B preferred shares was higher than the fair value of the Company's ordinary shares on issue date of Series B preferred shares. Series B preferred shares were not redeemable.

In June 2013 upon the completion of the Company's IPO, the 15,000,000 Series A preferred shares and 17,522,725 Series B preferred shares were converted into an aggregate of 32,522,725 ordinary shares of the Company.

Key terms of the Series A and Series B preferred shares when they were outstanding are summarized as follows:

**Dividends**

Only after full payment of dividend or distribution on the Series C preferred shares, the holders of Series B preferred shares and Series A preferred shares would participate on an as-if converted basis with respect to any dividends payable to the ordinary shares on a pro rata and on an as-if converted basis.

**Liquidation preference**

In the event of any liquidation, dissolution or winding up of the Company, either voluntary or involuntary, distributions to the shareholders of the Company would be made in the following manners (after satisfaction of all creditors' claims and claims that may be preferred by law):

1. If the valuation of the Company immediately prior to such liquidation, dissolution or winding up was at least $300,000, the entire assets of the Company legally available for distribution would be distributed to the holders of Series A preferred shares, Series B preferred shares, Series C preferred shares and ordinary shares on a pro rata basis, according to the relative number of ordinary shares held by each such holder (determined on an as-if converted basis).

2. If the valuation of the Company immediately prior to such liquidation, dissolution or winding up was less than $300,000, holders of Series C preferred shares would be paid an amount equal to 150% of Series C preferred issuance price plus unpaid dividends if any first. Then Series B preferred shareholders would be paid an amount equal to Series B issuance price plus unpaid dividends if any. Then Series A preferred shareholders would be paid an amount equal to Series A issuance price plus unpaid dividends if any. Any remaining assets would be distributed ratably among Series C preferred shareholders, Series B preferred shareholders, Series A preferred shareholders and ordinary shareholders on an as-if converted basis.

**Voting rights**

Each outstanding ordinary shareholder had right to one vote. Each preferred shareholder had a number of voting rights equivalent to the number of ordinary shares into which Series A, Series B and Series C preferred shares could have converted at the record date for determination of the shareholders entitled to vote on related matters.

**Conversion**

Series A preferred shares would be convertible at the option of the holder any time into ordinary shares as determined by dividing the Series A issuance price by the Series A preferred shares conversion price. The Series A preferred shares conversion price would initially be the Series A issuance price per ordinary share. Series B preferred share would be convertible at the option of the holder any time into ordinary shares as determined by dividing the Series B issuance price by the Series B conversion price. The Series B preferred shares conversion price would initially be the Series B issuance price per ordinary share. Series C preferred shares would be convertible at the option of the holder any time into ordinary shares as determined by dividing the Series C issuance price by the Series C conversion price. The conversion price would initially be the Series C issuance price per ordinary share.

Applicable conversion price would be adjusted for share dividends, subdivisions, combinations, or consolidations of ordinary shares, other distributions, reclassification, exchange and substitution. Applicable conversion price share would also be adjusted in respect of the issuance of additional ordinary shares if the consideration per additional ordinary share issued or deemed to be issued by the Company is less than such applicable conversion price in effect on the date of and immediately prior to such issue.

All preferred shares would automatically be converted into ordinary shares at the then effective applicable conversion price upon the closing of a Company qualified initial public offering or the written consent of holders of more than two thirds of the outstanding preferred shares (voting as a single class on an as-if converted basis) including consent of holders of a majority of the outstanding Series C preferred shares.

## 11. SERIES C CONVERTIBLE REDEEMABLE PREFERRED SHARES

On September 28, 2010, the Company issued a total of 9,651,565 convertible redeemable preferred shares ("Series C preferred shares") with par value of $0.000067 per share to third party investors for cash proceeds of $35,000, at an issuance price of $3.626 per Series C preferred share.

The Company determined that there was no beneficial conversion feature attributable to the Series C preferred shares because the initial and subsequent adjusted conversion price of Series C preferred shares was higher than the fair value of the Company's ordinary shares on the issue date of Series C preferred shares. The Company accreted changes in the redemption value over the period from the date of issuance to the earliest redemption date of the security.

In June 2013 upon the completion of the Company's IPO, the 9,651,565 Series C preferred shares were converted into 9,651,565 ordinary shares of the Company.

Key terms of the Series C preferred shares when they were outstanding did not differ from those of Series A and Series B preferred shares except redemption right which is summarized as follows:

**Redemption**

During a period of ten years after the fourth year anniversary of the Series C preferred shares issue date, the holders of Series C preferred shares would have the right to redeem the Series C preferred shares.

The redemption price of each Series C preferred shares would be equal to, subject to adjustment for combinations, consolidations, subdivisions, share splits, share dividends or the like with respect to such share, the sum of:

(i) the Series C preferred share issuance price; plus,

(ii) 8% compound interest per annum on the Series C preferred share issuance price for each Series C preferred share accreted over the period from the date of issuance to the earliest redemption date of the security; plus, all accrued but unpaid dividends per Series C preferred share.

Below is the movement in the carrying value of the Series C preferred shares.

| | **2012** | **2013** |
|---|---|---|
| | *$* | *$* |
| Balance on January 1 | 38,500 | 41,471 |
| Accretion to redemption value of Series C preferred shares | 2,971 | 1,621 |
| Conversion of Series C preferred shares upon IPO | — | (43,092) |
| Balance on December 31 | 41,471 | — |

## 12. ORDINARY SHARES

In June 2013, the Company completed its IPO of ADSs on the New York Stock Exchange with a total issuance of 8,492,368 ADSs at issuing price of $9.5 per ADS. Each ADS represents two ordinary shares of the Company. As such, the total ADSs represent 16,984,736 ordinary shares. Total net proceeds received were $75,030 from the IPO and the concurrent private placements, net of offering costs of $4,235.

In December 2013, the board of directors approved the Company to repurchase up to $20,000 of its own outstanding ADSs within one year from December 2013.

## 13. SHARE OPTIONS

On October 27, 2008, the Company adopted the 2008 Share Incentive Option Plan ("2008 Plan") for the granting of share options to employees to reward them for services provided to the Company and to provide incentives for future services. Pursuant to the 2008 Plan, total shares that the 2008 Plan was authorized to grant were 4,444,444 shares. The majority of the options will vest over four years where 25% of the options will vest at the end of the first year after the grant date through the fourth year. The share options expire 10 years from the date of grant.

In 2011, the Company granted 357,000, 8,000 and 119,000 share options under the 2008 Plan to employees at exercise prices of $4.25, $0.96 and $4.29 per share, respectively. These share options vest over a period ranged from three to four years.

In 2013, the Company granted 307,250 share options under the 2008 Plan to employees at exercise price of $4.75 per share. These share options vest over a period ranged from three to four years.

The fair value of each option granted was estimated on the date of grant using binomial option pricing model with the following assumptions during the applicable periods:

| | **2011** | **2013** |
|---|---|---|
| Risk-free interest rate | 3.86%-4.05% | 3.06%-3.83% |
| Exercise multiple | 2 | 2-2.8 |
| Expected volatility | 58%-61% | 56%-60% |
| Expected dividend yield | 0% | 0% |
| Fair value of ordinary shares | $4.02-$4.03 | $4.75-$4.97 |

### (1) Risk-free interest rate

Risk-free interest rate was estimated based on the yield to maturity of China international government bonds with a maturity period close to the contractual term of the options.

### (2) Exercise multiple

Exercise multiple represents the value of the underlying share as a multiple of exercise price of the option which, if achieved, results in exercise of the option.

### (3) Volatility

The volatility of the underlying ordinary shares during the life of the options was estimated based on the historical stock price volatility of comparable listed companies over a period comparable to the contractual term of the options.

### (4) Dividend yield

The dividend yield was estimated by the Group based on its expected dividend policy over the contractual term of the options.

**(5) Fair value of underlying ordinary shares**

Before the Company's IPO, the estimated fair value of the ordinary shares underlying the options as of the respective grant dates was determined based on a retrospective valuation. When estimating the fair value of the ordinary shares on the grant dates, management has considered a number of factors, including the result of the third-party appraisals prepared by independent valuation firms, and equity transactions of the Company.

After the Company's IPO, the fair value of the underlying ordinary shares is estimated based on the closing market price of the ADS of the Company as of the grant date.

A summary of the stock option activity under the 2008 Plan as of December 31, 2013, and changes during the year then ended is presented below:

| | Options granted | Weighted average exercise price per option | Weighted average fair value per option at grant date | Weighted average intrinsic value per option at grant date |
|---|---|---|---|---|
| | | *$* | *$* | *$* |
| Outstanding at January 1, 2013 | 1,778,250 | 1.12 | | |
| Granted | 307,250 | 4.75 | 2.45 | — |
| Exercised | (363,400) | 0.65 | 0.29 | 0.12 |
| Forfeited | (159,250) | 3.46 | 1.61 | 0.12 |
| Outstanding at December 31, 2013 | 1,562,850 | 1.71 | | |

The following table summarizes information regarding the share options granted as of December 31, 2013:

| | As of December 31, 2013 | | | |
|---|---|---|---|---|
| | Options Number | Weighted-average exercise price | Weighted-average remaining contractual life (years) | Aggregate intrinsic value |
| | | *$* | | *$* |
| Options | | | | |
| Outstanding | 1,562,850 | 1.71 | 6.55 | 3,892 |
| Exercisable | 945,663 | 0.19 | 5.40 | 3,627 |
| Expected to vest | 524,609 | 4.03 | 8.31 | 226 |

The total intrinsic value of options exercised during the years ended December 31, 2011, 2012 and 2013 were nil, nil, and $1,235, respectively.

The weighted average grant date fair value of options granted during the years ended December 31, 2011 and 2013 was $1.96 and $2.45 per share, respectively. There were no options granted during the year ended December 31, 2012.

For the years ended December 31, 2011, 2012 and 2013, the Group recorded share-based compensation expense of $191, $216 and $280 related to the options under the 2008 Plan, respectively. As of December 31, 2013, there was $657 of unrecognized compensation cost related to the options, which is expected to be recognized over a weighted-average period of 2.98 years.

## 14. NONVESTED SHARES

**Nonvested shares granted to founding shareholders under the restricted share agreement**

In October 2008, the Company's three of the five founding shareholders who were also employees, entered into an arrangement with the investors in conjunction with the issuance of Series A preferred shares, whereby all of their 24,633,333 ordinary shares became subject to transfer restrictions. In addition, such nonvested shares were subject to repurchase by the Company upon termination of employment. The repurchase price was the par value of the ordinary shares. The founding shareholders retained the voting rights of such nonvested shares, and any additional securities or cash received as the result of ownership of such shares. This arrangement was accounted for as a reverse stock split followed by the grant of a restricted stock award under a performance-based plan. Accordingly, the Group measured the fair value of the nonvested shares and was recognizing the amount as compensation expense over the four year deemed service period.

The founding shareholders' nonvested shares vested as follows: (i) twenty percent on the date of October 23, 2008 (the Vesting Starting Date); (ii) twenty percent on the first anniversary of the Vesting Starting Date; (iii) after the first anniversary of the Vesting Starting Date, 1/36 of the remaining shares every thirty days thereafter. Vesting would be accelerated upon a qualified IPO or change of control of the Company.

Before the founding shareholders' nonvested shares were vested and released from the repurchase rights, the holders of the nonvested shares were entitle to all rights and privileges of those of ordinary shareholders, and were entitled to voting rights and dividends. Therefore, these nonvested shares were considered participating securities for the purpose of net loss per share calculation. In March 2012, the founding shareholders' nonvested shares had been fully vested and released from the repurchase rights.

**Nonvested shares granted to employees under the 2008 Plan**

In 2011, the Company granted 1,820,010 nonvested shares to certain employees. These nonvested shares vest over a four year period from the date of the grant.

In 2013, the Company granted 711,571 nonvested shares to certain officers and employees. These nonvested shares vest over a period ranged from two to four years.

The following table summarizes information regarding the nonvested shares granted and vested:

| | Number of Shares | Weighted average grant date fair value |
|---|---|---|
| | | *$* |
| Outstanding at January 1, 2013 | 1,054,778 | 4.46 |
| Granted | 711,571 | 4.75 |
| Forfeited | (3,750) | 4.75 |
| Vested | (767,397) | 4.50 |
| Outstanding at December 31, 2013 | 995,202 | 4.52 |

The total fair value of shares vested during the years ended December 31, 2011, 2012 and 2013, was 21,342, 19,318, and 3,453 respectively.

For the years ended December 31, 2011, 2012 and 2013, the Group recorded share-based compensation expenses of $1,902, $2,479 and $4,038 related to the nonvested shares, respectively. As of December 31, 2013, there was $3,027 of unrecognized compensation costs related to nonvested shares, which are expected to be recognized over a weighted-average period of 1.70 years.

Total share-based compensation expenses for the years ended December 31, 2011, 2012 and 2013 were as follows:

| | Year ended December 31, | | |
|---|---|---|---|
| | **2011** | **2012** | **2013** |
| | *$* | *$* | *$* |
| Fulfillment | 13 | 10 | 9 |
| Selling and marketing | 90 | 117 | 134 |
| General and administrative | 1,990 | 2,568 | 4,175 |
| Total | 2,093 | 2,695 | 4,318 |

## 15. INCOME TAXES

### Cayman Islands

The Company is a tax-exempted company incorporated in the Cayman Islands and is not subject to tax on income or capital gains.

### Hong Kong

Light In The Box and Lanting International are located in Hong Kong and subject to Hong Kong profits tax at 16.5% with respect to the profit generated from Hong Kong.

### PRC

Except Lanting Huitong and Lanting Gaochuang, other entities of the Group domiciled in the PRC are subject to 25% statutory income tax rates in accordance with the Enterprise Income Tax Law ("EIT Law") in the periods presented. Lanting Huitong qualified as a "software enterprise" and therefore enjoyed a two-year income tax exemption starting from 2010, the first profit making year, followed by a reduced tax rate of 12.5% for the subsequent three years. Lanting Gaochuang qualified as a "software enterprise" in 2012 and therefore is entitled to a two-year income tax exemption starting from its first profit making year, followed by a reduced tax rate of 12.5% for the subsequent three years.

For the years ended December 31, 2011, 2012 and 2013, income tax expense (benefit) included in the consolidated statements of operations were attributable to the Group's PRC subsidiary and VIEs and comprised current tax expense (benefit) of $(606), $19 and $69, respectively. There was a deferred tax benefit of $272 included in income tax benefit for the year ended December 31, 2011 and no material deferred tax expense (benefit) for the years ended December 31, 2012 and 2013.

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

| | As of December 31, | |
|---|---|---|
| | **2012** | **2013** |
| | *$* | *$* |
| Current deferred tax assets: | | |
| Accrued payroll | 502 | 638 |
| Accrued expenses | — | 45 |
| *Less:* Valuation allowance | (502) | (683) |
| Current deferred tax assets, net | — | — |
| Non-current deferred tax asset: | | |
| Net operating loss carry forwards | 8,338 | 7,959 |
| *Less:* Valuation allowance | (8,338) | (7,959) |
| Non-current deferred tax asset, net | — | — |
| Total deferred tax asset, net | — | — |

The Group had no deferred tax liabilities as of December 31, 2012 and 2013.

The Group operates through its subsidiaries and VIE entities and the valuation allowance is considered on each individual subsidiary and VIE basis. The net operating loss carry forwards of the subsidiaries and VIE registered in the PRC will expire on various dates through 2018. The Group has recognized a full valuation allowance against deferred tax assets as the Group believes that it is more likely than not that its deferred tax assets will not be realized as it does not expect to generate sufficient taxable income in the near future.

Reconciliation between the expense (benefit) of income taxes computed by applying the PRC tax rate to loss before income taxes and the actual provision for income taxes is as follows:

| | Year ended December 31, | | |
|---|---|---|---|
| | **2011** | **2012** | **2013** |
| | *$* | *$* | *$* |
| Loss before provision of income tax | (25,409) | (4,211) | (4,750) |
| Statutory tax rate in the PRC | 25% | 25% | 25% |
| Income tax at statutory tax rate | (6,352) | (1,053) | (1,187) |
| Non-deductible expenses | 672 | 403 | 225 |
| Effect of income tax holiday and preferential tax rates | (828) | (41) | (62) |
| Write-off/(refund) of prepaid income tax* | (606) | — | — |
| Effect of income tax rate differences in jurisdictions other than the PRC | 1,897 | 1,105 | 1,291 |
| Changes in valuation allowances | 4,339 | (395) | (198) |
| Income tax expense (benefit) | (878) | 19 | 69 |

* During the year of 2010, Lanting Huitong paid income tax of $579 at the request of the PRC tax authority. The Group did not expect to recover such prepaid income tax and, therefore, recorded the amount as income tax expenses in 2010. In September 2011, the PRC tax authority reassessed the tax payment and decided to refund the amount prepaid. The Group recorded such amount as tax refund in 2011.

The Group did not identify significant unrecognized tax benefits for the years ended December 31, 2012 and 2013. The Group did not incur any interest related to unrecognized tax benefits, did not recognize any penalties as income tax expenses and does not anticipate any significant change in unrecognized tax benefits within 12 months from December 31, 2013.

Uncertainties exist with respect to how the current income tax law in the PRC applies to the Group's overall operations, and more specifically, with regard to tax residency status. The EIT Law includes a provision specifying that legal entities organized outside of the PRC will be considered residents for Chinese Income tax purposes if the place of effective management or control is within the PRC. The implementation rules to the New EIT Law provide that non-resident legal entities will be considered PRC residents if substantial and overall management and control over the manufacturing and business operations, personnel, accounting and properties occurs within the PRC. On April 22, 2009, the State Administration of Taxation (the "SAT") issued the Notice Regarding the Determination of Chinese-Controlled Offshore Incorporated Enterprises as PRC Tax Resident Enterprises on the Basis of De Facto Management Bodies, or Circular 82, which provides certain specific criteria for determining whether the "de facto management body" of a Chinese-controlled offshore-incorporated enterprise is located in China. In addition, on August 3, 2011, the SAT issued a bulletin to made clarification in the areas of resident status determination, post-determination administration, as well as competent tax authorities. The Group does not believe that the legal entities organized outside of the PRC within the Group should be treated as residents for EIT law purposes. However, if the PRC tax authorities subsequently determine that the Company and its subsidiaries registered outside the PRC should be deemed resident enterprises, the Company and its subsidiaries registered outside the PRC will be subject to the PRC income taxes, at a rate of 25%.

If any entity within the Group that is outside the PRC were to be a non-resident for PRC tax purposes dividends paid to it out of profits earned after January 1, 2008 would be subject to a withholding tax at a rate of 10%, subject to reduction by an applicable tax treaty with the PRC. As of December 31, 2012 and December 31, 2013, the Company's subsidiaries located in the PRC recorded aggregate accumulated deficits. Accordingly, no deferred tax liability has been accrued for the Chinese dividend withholding taxes. In the future, aggregate undistributed earnings of the Company's subsidiaries located in the PRC, if any, that are taxable upon distribution to the Company, will be considered to be indefinitely reinvested, because the Group does not have any plan to pay cash dividends on its ordinary shares in the foreseeable future and intends to retain most of its available funds and any future earnings for use in the operation and expansion of its business.

In accordance with relevant the PRC tax administration laws, tax years from 2008 to 2012 of the Group's PRC entities remain subject to tax audits as of December 31, 2013, at the tax authority's discretion.

## 16. LOSS PER SHARE

The following table sets forth the computation of basic and diluted net loss per ordinary share for the following years:

| | 2011 | 2012 | 2013 |
|---|---|---|---|
| | *$* | *$* | *$* |
| **Numerator:** | | | |
| Net loss | (24,531) | (4,230) | (4,819) |
| Accretion of Series C convertible redeemable preferred shares | 2,800 | 2,971 | 1,621 |
| Undistributed earnings allocated to Series C preferred shares | | | — |
| **Net income attributable to Series C preferred shares for computing basic net income per Series C preferred share** | 2,800 | 2,971 | 1,621 |
| Undistributed earnings allocated to Series A preferred shares | — | — | — |
| **Net income attributable to Series A preferred shares for computing basic net income per Series A preferred share** | — | — | — |
| Undistributed earnings allocated to Series B preferred shares | — | — | — |
| **Net income attributable to Series B preferred shares for computing basic net income per Series B preferred share** | — | — | — |
| **Net loss attributable to ordinary shareholders of LightInTheBox Holding Co., Ltd.** | (27,331) | (7,201) | (6,440) |
| Net loss attributable to shareholders of the Company allocated for computing net loss per ordinary share-basic | (22,288) | (6,843) | (6,440) |
| Net loss attributable to shareholders of the Company allocated for computing net loss per nonvested share-basic | (5,043) | (358) | — |
| *Plus:* income effect from assumed conversion of Series A and Series B preferred shares | — | — | — |
| Undistributed earnings allocated to Series A preferred shares | — | — | — |
| Undistributed earnings allocated to Series B preferred shares | — | — | — |
| Net loss per ordinary share-basic | (0.76) | (0.20) | (0.09) |
| Net loss per nonvested share-basic | (0.76) | (0.20) | — |
| Net loss per ordinary share-diluted | (0.76) | (0.20) | (0.09) |
| Net loss per Series A preferred share | — | — | — |
| Net loss per Series B preferred share | — | — | — |
| Net income per Series C preferred share | 0.29 | 0.31 | 0.38 |

| | 2011 | 2012 | 2013 |
|---|---|---|---|
| **Numerator** | | | |
| **Shares (denominator):** | | | |
| Weighted average number of shares used in calculating net loss per nonvested share-basic | 6,663,370 | 1,792,535 | — |
| Weighted average number of shares used in calculating net loss per Series A preferred share — basic | 15,000,000 | 15,000,000 | 6,616,438 |
| Weighted average number of shares used in calculating net loss per Series B preferred share — basic | 17,522,725 | 17,522,725 | 7,729,202 |
| Weighted average number of shares used in calculating net loss per Series C preferred share — basic | 9,651,565 | 9,651,565 | 4,257,266 |
| Weighted average number of shares used in calculating net loss per ordinary share — basic | 29,445,595 | 34,316,430 | 71,555,449 |

As a result of the Group's net loss for each of the three years ended December 31, 2013, 1,975,000, 1,778,250 and 1,562,850 options outstanding and 5,536,925, 1,054,778 and 995,202 nonvested shares outstanding as of December 31, 2011, 2012 and 2013, respectively, were excluded from the computation of diluted net loss per share as their inclusion would have been anti-dilutive. In addition, 15,000,000 Series A preferred shares, 17,522,725 Series B preferred shares, 9,651,565 Series C preferred shares and the convertible notes computed using as-if converted method were excluded from the calculation of diluted loss per share as their inclusion would have been anti-dilutive.

## 17. EMPLOYEE RETIREMENT BENEFIT

Full time employees in the PRC participate in a government-mandated defined contribution plan pursuant to which certain pension benefits, medical care, unemployment insurance, employee housing fund and other welfare benefits are provided to employees. The PRC labor regulations require the Group to make contributions based on certain percentages of the employees' basic salaries. Other than the contribution, there is no further obligation under these plans. The total contribution for such employee benefits was $2,897, $3,848 and $5,603 for the years ended December 31, 2011, 2012 and 2013, respectively.

## 18. STATUTORY RESERVES AND RESTRICTED NET ASSETS

In accordance with the PRC laws and regulations, the group is required to provide for certain statutory reserves, namely general reserve, enterprise expansion reserve, and staff welfare and bonus reserve, all of which are appropriated from net profit as reported in their PRC statutory accounts. The Group's subsidiaries are required to allocate at least 10% of their after-tax profits to the general reserve until such reserve has reached 50% of their respective registered capital.

Appropriations to the enterprise expansion reserve and the staff welfare and bonus reserve are to be made at the discretion of the board of directors of each of the Group's subsidiaries. There are no appropriations to these reserves by the Group's PRC (mainland) subsidiaries for the years ended December 31, 2011, 2012 and 2013.

As a result of these PRC laws and regulations and the requirement that distributions by the PRC entities can only be paid out of distributable profits computed in accordance with the PRC GAAP, the PRC entities are restricted from transferring a portion of their net assets to the Group. Amounts restricted include paid-in capital and the statutory reserves of the Company's PRC subsidiaries and VIE. As of December 31, 2012 and December 31, 2013, the amounts of capital represented the amount of net assets of the relevant subsidiaries and VIE in the Group not available for distribution amounted to $3,293 and $3,293, respectively.

## 19. SEGMENT REPORTING

The Group's chief operating decision maker has been identified as the Chief Executive Officer, who reviews the consolidated results when making decisions about allocating resources and assessing performance of the Group. The Group has one operating segment.

Components of the Group's net revenues are presented in the following table:

| | For the years ended December 31, | | |
|---|---|---|---|
| | **2011** | **2012** | **2013** |
| | *$* | *$* | *$* |
| Apparel | 46,888 | 80,274 | 86,459 |
| Electronics and other general merchandise | 69,342 | 119,736 | 205,958 |
| Total net revenues | 116,230 | 200,010 | 292,417 |

The following table summarizes the Group's total net revenues generated in different geographic locations and as a percentage of total net revenues.

| | For the years ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | **2011** | | **2012** | | **2013** | |
| | **Revenues** | **%** | **Revenues** | **%** | **Revenues** | **%** |
| | *$* | | *$* | | *$* | |
| Europe | 57,853 | 49.8 | 101,424 | 50.7 | 182,958 | 62.5 |
| North America | 32,721 | 28.2 | 47,985 | 24.0 | 54,858 | 18.8 |
| South America | 4,097 | 3.5 | 12,876 | 6.4 | 26,205 | 9.0 |
| Other countries | 21,559 | 18.5 | 37,725 | 18.9 | 28,396 | 9.7 |
| Total net revenues | 116,230 | 100 | 200,010 | 100 | 292,417 | 100 |

North America's net revenues include revenues from the United States of $29,117, $41,840 and $46,136 during the years ended December 31, 2011, 2012 and 2013, respectively. Europe's net revenues include revenues from France of $22,448, $32,913 and $42,504 and revenues from the United Kingdom of $6,541, $13,577 and $12,986 during the years ended December 31, 2011, 2012 and 2013, respectively.

As of December 31, 2012 and 2013, substantially all of long-lived assets of the Group are located in the PRC.

## 20. FAIR VALUE MEASUREMENTS

The Group had no financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2012 and December 31, 2013.

Goodwill and other intangible assets are measured at fair value on a nonrecurring basis and they are recorded at fair value only when impairment is recognized. The Group estimated the fair value of a reporting unit using the discounted cash flow method under the income approach. The discounted cash flows were based on five years financial forecasts developed by management for planning purposes and estimated discount rates. Cash flows beyond the forecasted period were estimated using a terminal value calculation. The fair values of intangible asset were determined based on various valuation methods, including the replacement cost method and the relief from royalty method.

## 21. RELATED PARTY TRANSACTIONS

The Company entered into indemnification agreements with certain directors. These agreements require the Company to indemnify such individuals, to the fullest extent permitted by law, for certain liabilities to which they may become subject as a result of their affiliation with the Company.

## 22. COMMITMENTS AND CONTINGENCIES

### (1) Commitments

***Lease commitment***

The Group has operating lease agreements for warehouses and offices. Rent expenses under operating leases for the year ended December 31, 2011, 2012 and 2013 were $1,716, $2,074 and $3,005, respectively. Future minimum lease payments under non-cancellable operating lease agreements as of December 31, 2013 are as follows:

| | *$* |
|---|---:|
| 2014 | 3,921 |
| 2015 | 3,482 |
| 2016 | 556 |
| 2017 | 198 |
| 2018 | — |
| | 8,157 |

### (2) Contingencies

The Company's PRC subsidiary, VIE and VIE's subsidiary, have not fully paid the contributions for employee benefit plans as required by applicable PRC regulations. While the Company believes it has made adequate provision of such outstanding amounts in the audited consolidated financial statements, prior failure to make payments may be in violation of applicable PRC labor-related laws and the Group may be subject to fines up to maximum of $19,006 if it fails to rectify any such breaches within the period prescribed by the relevant authorities. As of December 31, 2013, there had been no actions initiated by the relevant authorities. The Group is unable to reasonably estimate the actual amount of fines and penalty that may rise if the authorities were to become aware of the non-compliance and were to take action.

The Company's PRC subsidiary, VIEs and VIEs' subsidiary did not withhold appropriate amount of individual income tax as required by applicable PRC tax laws. While the Company believes it has made adequate provision of such outstanding amounts in the consolidated financial statements, and in March 2013, the accrued amounts were substantially paid by the Company on a voluntary basis to the relevant tax authority, the Company may still be subject to future fines or levies for such non-compliance. As of December 31, 2013, there had been no actions initiated by the relevant authorities. The Group is unable to reasonably estimate the actual amount of fines or levies that may rise if the authorities were to take action.

On August 27, 2013, the Company was named as a defendant in the first of three putative shareholder class action lawsuits filed in the United States District Court for the Southern District of New York. These three actions have been consolidated under the master caption In re LightInTheBox Holding Co., Ltd. Securities Litigation, No. 13-cv-6016. On March 14, 2014, the lead plaintiff filed a consolidated second amended complaint purportedly on behalf of a class of purchasers of the Company's ADSs during the period from June 6, 2013 to August 19, 2013, inclusive. The complaint generally alleges that the registration statement and prospectus filed in connection with the Company's initial public offering contained misrepresentations regarding the Company's customers, revenue growth, marketing efforts, and costs of revenue, and failed to disclose, among other things, a decline in the sales of the Company's apparel business during the second quarter of 2013. Plaintiff asserts claims and seeks unspecified damages against the Company and/or certain of the current and former executive officers for violation of sections 10(b) and 20(a) of the Exchange Act. On April 17, 2014, the court granted the Company leave to move to dismiss the complaint for failure to state a claim as a matter of law. As of this stage, it is not possible to predict, with a reasonable of certainty, the ultimate outcome. However, managements believe these lawsuits are without merit, and the likelihood of a material outcome is remote. As of December 31, 2013, no losses with respect to this contingency were accrued.

The Group is subject to periodic legal or administrative proceedings in the ordinary course of business. The Group does not believe that any currently pending legal or administrative proceeding to which the Group is a party will have a material effect on its business or financial condition.

**LIGHTINTHEBOX 2014 ANNUAL REPORT**

**Report of Independent Registered Public Accounting Firm**

**To the Board of Directors and Shareholders of**
**LightInTheBox Holding Co., Ltd.**

We have audited the accompanying consolidated balance sheets of LightInTheBox Holding Co., Ltd. (the "Company"), its subsidiaries, its variable interest entities (the "VIEs") and its VIE's subsidiary (collectively the "Group") as of December 31, 2013 and 2014, and the related consolidated statements of operations, comprehensive loss, changes in equity (deficit), and cash flows for each of the three years in the period ended December 31, 2014. These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Group is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Group as of December 31, 2013 and 2014, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2014, in conformity with accounting principles generally accepted in the United States of America.

Deloitte Touche Tohmatsu Certified Public Accountants LLP
Beijing, the People's Republic of China

April 17, 2015

**Consolidated Balance Sheets**

*(U.S. dollars in thousands, except share data and per share data, or otherwise noted)*

| | December 31, | |
|---|---|---|
| | 2013 | 2014 |
| | $ | $ |
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | 23,745 | 75,358 |
| Term deposit | 79,958 | 5,802 |
| Restricted cash | 1,360 | 2,267 |
| Accounts receivable | 259 | 695 |
| Inventories | 7,081 | 9,845 |
| Prepaid expenses and other current assets | 8,890 | 5,189 |
| Total current assets | 121,293 | 99,156 |
| Property and equipment, net | 3,002 | 3,664 |
| Intangible assets, net | 266 | 249 |
| Goodwill | 690 | 690 |
| Long-term deposit | 640 | 708 |
| TOTAL ASSETS | 125,891 | 104,467 |

| | December 31, | |
|---|---|---|
| | 2013 | 2014 |
| | $ | $ |
| LIABILITIES AND EQUITY | | |
| Current Liabilities | | |
| Accounts payable (including accounts payable of the consolidated VIEs without recourse to LightInTheBox Holding Co., Ltd. of $36 and $23 as of December 31, 2013 and December 31, 2014, respectively) | 18,677 | 25,236 |
| Advance from customers (including advance from customers of the consolidated VIEs without recourse to LightInTheBox Holding Co., Ltd. of $4 and nil as of December 31, 2013 and December 31, 2014, respectively) | 10,263 | 10,979 |
| Accrued expenses and other current liabilities (including accrued expenses and other current liabilities of the consolidated VIEs without recourse to LightInTheBox Holding Co., Ltd. of $1,449 and $2,251 as of December 31, 2013 and December 31, 2014, respectively) | 15,560 | 25,069 |
| Total current liabilities | 44,500 | 61,284 |
| TOTAL LIABILITIES | 44,500 | 61,284 |

| | December 31, | |
|---|---|---|
| | 2013 | 2014 |
| | *$* | *$* |
| EQUITY | | |
| Ordinary shares ($0.000067 par value; 707,825,710 shares authorized; 99,194,991 and 100,354,801 shares issued as of December 31, 2013 and December 31, 2014, respectively; 99,194,991 and 96,617,349 shares outstanding as of December 31, 2013 and December 31, 2014, respectively) | 7 | 7 |
| Additional paid-in capital | 153,124 | 155,872 |
| Accumulated deficit | (71,621) | (101,608) |
| Accumulated other comprehensive loss | (119) | (131) |
| Treasury shares, at cost (nil and 3,737,452 shares as of December 31, 2013 and December 31, 2014, respectively) | — | (10,957) |
| TOTAL EQUITY | 81,391 | 43,183 |
| TOTAL LIABILITIES AND EQUITY | 125,891 | 104,467 |

The accompanying notes are an integral part of these consolidated financial statements.

**Consolidated Statements of Operations**

*(U.S. dollars in thousands, except share data and per share data, or otherwise noted)*

| | Years ended December 31, | | |
|---|---|---|---|
| | **2012** | **2013** | **2014** |
| | *$* | *$* | *$* |
| Net revenues | 200,010 | 292,417 | 382,407 |
| Cost of goods sold | 116,465 | 165,267 | 237,095 |
| Gross profit | 83,545 | 127,150 | 145,312 |
| Operating expenses: | | | |
| Fulfillment | 10,088 | 15,963 | 23,926 |
| Selling and marketing | 53,418 | 84,245 | 105,186 |
| General and administrative | 22,369 | 31,929 | 46,916 |
| Total operating expenses. | 85,875 | 132,137 | 176,028 |
| Loss from operations | (2,330) | (4,987) | (30,716) |
| Exchange loss on offshore bank accounts | — | — | (1,556) |
| Interest (expense) income | (1,881) | 237 | 2,355 |
| Loss before income taxes | (4,211) | (4,750) | (29,917) |
| Income taxes expenses | (19) | (69) | (70) |
| Net loss | (4,230) | (4,819) | (29,987) |
| Accretion for Series C convertible redeemable preferred shares | 2,971 | 1,621 | — |
| Net loss attributable to ordinary shareholders | (7,201) | (6,440) | (29,987) |
| Net loss per ordinary share-basic | (0.20) | (0.09) | (0.30) |
| Net loss per ordinary share-diluted | (0.20) | (0.09) | (0.30) |

The accompanying notes are an integral part of these consolidated financial statements.

**Consolidated Statements of Comprehensive Loss**

*(U.S. dollars in thousands, or otherwise noted)*

| | Years ended December 31 | | |
|---|---|---|---|
| | **2012** | **2013** | **2014** |
| | *$* | *$* | *$* |
| Net loss | (4,230) | (4,819) | (29,987) |
| Other comprehensive loss, net of tax: | | | |
| Foreign currency translation adjustment, net of tax of nil | (8) | (89) | (12) |
| Total comprehensive loss | (4,238) | (4,908) | (29,999) |

The accompanying notes are an integral part of these consolidated financial statements.

## Consolidated Statements of Changes in Equity (deficit)

*(U.S. dollars in thousands, except share data and per share data, or otherwise noted)*

| | Series A Convertible Preferred Shares | | Series B Convertible Preferred Shares | | Ordinary Shares | | Additional Paid-in Capital | Treasury stock, at cost | Accumulated Other Comprehensive Income (Loss) | Accumulated Deficit | Total (Deficit) Equity |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | Shares | Amount | | | | | |
| | | $ | | $ | | $ | $ | $ | $ | $ | $ |
| Balance at January 1, 2012 | 15,000,000 | 5,000 | 17,522,725 | 11,270 | 32,198,411 | 2 | 5,668 | — | (22) | (57,980) | (36,062) |
| Vesting of nonvested shares | — | — | — | — | 4,482,147 | — | — | — | — | — | — |
| Share-based compensation | — | — | — | — | — | — | 2,695 | — | — | — | 2,695 |
| Accretion for Series C convertible redeemable preferred shares | — | — | — | — | — | — | — | — | — | (2,971) | (2,971) |
| Net loss | — | — | — | — | — | — | — | — | — | (4,230) | (4,230) |
| Beneficial conversion feature of convertible notes | — | — | — | — | — | — | 2,096 | — | — | — | 2,096 |
| Foreign currency translation adjustment | — | — | — | — | — | — | — | — | (8) | — | (8) |
| Balance at December 31, 2012 | 15,000,000 | 5,000 | 17,522,725 | 11,270 | 36,680,558 | 2 | 10,459 | — | (30) | (65,181) | (38,480) |
| Conversion of preferred shares upon IPO | (15,000,000) | (5,000) | (17,522,725) | (11,270) | 42,174,290 | 3 | 59,359 | — | — | — | 43,092 |
| Conversion of convertible notes upon IPO | — | — | — | — | 2,224,610 | — | 8,000 | — | — | — | 8,000 |
| Issuance of common shares upon IPO (net of offering costs of $9,883) | — | — | — | — | 16,984,736 | 2 | 70,795 | — | — | — | 70,797 |
| Vesting of nonvested shares | — | — | — | — | 767,397 | — | — | — | — | — | — |
| Exercise of share options | — | — | — | — | 363,400 | — | 193 | — | — | — | 193 |
| Share-based compensation | — | — | — | — | — | — | 4,318 | — | — | — | 4,318 |
| Accretion for Series C convertible redeemable preferred shares | — | — | — | — | — | — | — | — | — | (1,621) | (1,621) |
| Net loss | — | — | — | — | — | — | — | — | — | (4,819) | (4,819) |
| Foreign currency translation adjustment | — | — | — | — | — | — | — | — | (89) | — | (89) |
| Balance at December 31, 2013 | — | — | — | — | 99,194,991 | 7 | 153,124 | — | (119) | (71,621) | 81,391 |
| Vesting of nonvested shares | — | — | — | — | 611,010 | — | — | — | — | — | — |
| Exercise of share options | — | — | — | — | 548,800 | — | 230 | — | — | — | 230 |
| Share-based compensation | — | — | — | — | — | — | 2,518 | — | — | | 2,518 |
| Repurchase of ordinary shares | — | — | — | — | (3,737,452) | — | — | (10,957) | — | — | (10,957) |
| Net loss | — | — | — | — | — | — | — | — | — | (29,987) | (29,987) |
| Foreign currency translation adjustment | — | — | — | — | — | — | — | — | (12) | — | (12) |
| Balance at December 31, 2014 | — | — | — | — | 96,617,349 | 7 | 155,872 | (10,957) | (131) | (101,608) | 43,183 |

The accompanying notes are an integral part of these consolidated financial statements.

**Consolidated Statements of Cash Flows**

*(U.S. dollars in thousands, or otherwise noted)*

| | Years ended December 31, | | |
|---|---|---|---|
| | 2012 | 2013 | 2014 |
| | $ | $ | $ |
| Net loss | (4,230) | (4,819) | (29,987) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: | | | |
| Depreciation and amortization | 1,031 | 1,361 | 1,855 |
| Share-based compensation | 2,695 | 4,318 | 2,518 |
| Exchange loss on offshore bank accounts | — | — | 1,556 |
| Write-off of rental deposit | 242 | — | — |
| Inventory write-down | 218 | (420) | 1,206 |
| Amortization of debt discount | 1,140 | 956 | — |
| Interest on convertible notes | 744 | 413 | — |
| Changes in operating assets and liabilities: | | | |
| Accounts receivable | (176) | 12 | (447) |
| Inventories | (1,003) | (864) | (4,000) |
| Prepaid expenses and other current assets | (5,807) | (1,148) | 3,639 |
| Long-term deposit | (225) | (337) | (79) |
| Accounts payable | 4,020 | 9,508 | 6,567 |
| Advance from customers | 3,641 | 3,130 | 818 |
| Accrued expenses and other current liabilities | 5,109 | 3,042 | 9,465 |
| Net cash provided by (used in) operating activities | 7,399 | 15,152 | (6,889) |
| Cash flows from investing activities | | | |
| Purchase of property and equipment | (917) | (2,451) | (2,576) |
| Maturity of term deposit | — | — | 157,519 |
| Purchase of term deposit | — | (79,958) | (84,855) |
| Deposit in restricted cash | (367) | (143) | (907) |
| Payment for business acquisition | — | (1,000) | — |
| Net cash (used in) provided by investing activities | (1,284) | (83,552) | 69,181 |

| | Years ended December 31, | | |
|---|---|---|---|
| | 2012 | 2013 | 2014 |
| | $ | $ | $ |
| Cash flows from financing activities | | | |
| Proceeds from issuance of convertible notes | 8,000 | — | — |
| Proceeds from exercise of share options | — | 193 | 230 |
| Proceeds from initial public offering | — | 75,030 | — |
| Repurchase of ordinary shares | — | — | (10,650) |
| Payment of professional fees related to initial public offering | (930) | (3,127) | — |
| Net cash provided by (used in) financing activities | 7,070 | 72,096 | (10,420) |
| Net increase in cash and cash equivalents | 13,185 | 3,696 | 51,872 |
| Effect of exchange rate changes on cash and cash equivalents | 1 | 77 | (259) |
| Cash and cash equivalents at beginning of year | 6,786 | 19,972 | 23,745 |
| Cash and cash equivalents at end of year | 19,972 | 23,745 | 75,358 |
| Supplemental cash flow information: | | | |
| Income taxes paid | (12) | (69) | (70) |
| Interest paid | — | (1,157) | — |

The accompanying notes are an integral part of these consolidated financial statements.

**Notes to the Consolidated Financial Statements**

*For the Years Ended December 31, 2012, 2013 and 2014*

*(U.S. dollars in thousands, except share data and per share data, or otherwise noted)*

**1. ORGANIZATION AND PRINCIPAL ACTIVITIES**

LightInTheBox Holding Co., Ltd. (the "Company"), incorporated in the Cayman Islands in March 2008 by five founding shareholders, together with its consolidated subsidiaries, variable interest entities ("VIEs") and VIE's subsidiary (collectively referred to the "Group"), is primarily involved in online retailing to sell and deliver products to consumers around the world.

As of December 31, 2014, details of the Company's subsidiaries, its VIEs and VIE's subsidiary are as follows:

| | Later of acquisition/ Incorporation | Place of incorporation | Percentage of legal ownership | Principal activities |
|---|---|---|---|---|
| *Subsidiaries* | | | | |
| Light In The Box Limited ("Light In The Box") | June 13, 2007 | Hong Kong | 100% | Online retail |
| Lanting International Holding Limited ("Lanting International") | December 19, 2013 | Hong Kong | 100% | Investment holding |
| LightInTheBox International Logistic Co., Ltd. ("LightInTheBox Logistic") | December 3, 2010 | Hong Kong | 100% | Logistic |
| LITB, Inc. | December 18, 2013 | United States | 100% | Marketing and software development and technology support |
| Lightinthebox Trading (Shenzhen) Co., Ltd. ("Lanting Jishi") | October 21, 2008 | People's Republic of China | 100% | Online retail |
| Light In The Box(Suzhou) Trading Co., Limited ("Lanting Suzhou") | December 2, 2013 | People's Republic of China | 100% | Online retail |
| Light In The Box (Chengdu) Technology Co., Limited | November 11, 2014 | People's Republic of China | 100% | Software development and information technology support |
| LightInTheBox (UK) Limited | May 26, 2009 | United Kingdom | 100% | Inactive |
| LITB Netherlands B.V. | September 22, 2014 | Netherlands | 100% | Marketing |
| *VIEs* | | | | |
| Shenzhen Lanting Huitong Technologies Co., Ltd. ("Lanting Huitong") | June 24, 2008 | People's Republic of China | Consolidated VIE | Software development and information technology support |
| Beijing Lanting Gaochuang Technologies Co., Ltd. ("Lanting Gaochuang") | December 6, 2011 | People's Republic of China | Consolidated VIE | Software development and information technology support |
| *VIE's (Lanting Huitong's) wholly owned subsidiary* | | | | |
| Shanghai Ouku Network Technologies Co., Ltd. ("Shanghai Ouku") | August 24, 2010 | People's Republic of China | VIE's subsidiary | Online retail |

**History of the Group and corporate reorganization**

The Group commenced its operation in June 2007, with the establishment of Light In The Box in June 2007 in Hong Kong by the same five founding shareholders of the Company. Light In The Box subsequently became the Company's subsidiary through a share for share exchange in April 2008 which has been accounted for in a manner akin to a pooling of interest as if the Company had been in existence and owned Light In The Box since June 2007.

Lanting Jishi was established in October 2008 in the People's Republic of China (the "PRC") as a wholly owned subsidiary of Light In The Box.

**The VIE arrangements**

The PRC regulations currently limit direct foreign ownership of business entities providing value-added telecommunications services, advertising services and Internet services in the PRC where certain licenses are required for the provision of such services. To comply with these PRC regulations, the Group currently conducts certain aspects of its business in the PRC through Lanting Huitong and Lanting Gaochuang, both of which are VIEs.

Lanting Huitong was established by the shareholders of the Company in June 2008 in the PRC. Through the contractual arrangements (as described below) among Lanting Jishi, Lanting Huitong and the respective shareholders of Lanting Huitong, Lanting Huitong became the Group's VIE.

In order to obtain the benefit granted to domestic enterprises that are held by Chinese nationals who have previously studied overseas, the Chief Executive Officer ("CEO") and Lanting Huitong established Lanting Gaochuang in December 2011, each holding 51% and 49% of Lanting Gaochuang, respectively, in the China Beijing Wangjing Overseas Students Pioneer Park.

Through a series of contractual arrangements (as described below) among Lanting Jishi, Lanting Gaochuang and the respective shareholders of Lanting Gaochuang, Lanting Gaochuang became the Group's VIE.

**Agreements that provide Lanting Jishi effective control over Lanting Huitong and Lanting Gaochuang (collectively, the "VIEs")**

*Powers of Attorney:* Each shareholder of the VIEs has executed a power of attorney appointing Lanting Jishi or its designee to be his or her attorney and irrevocably authorizing them to vote on his or her behalf on all of the matters concerning the VIEs that may require shareholders' approval. The powers of attorney will be valid as long as the shareholders remain as shareholders of the VIEs.

*Equity disposal agreement:* The agreements granted Lanting Jishi or its designated party exclusive options to purchase, when and to the extent permitted under PRC law, all or part of the equity interests in the VIEs. The exercise price for the options to purchase all or part of the equity interests will be the minimum amount of consideration permissible under the then applicable PRC law. The agreement will be valid until Lanting Jishi or its designated party purchases all the shares from shareholders of the VIEs. The equity disposal agreement will be valid until the liquidation of the VIEs, unless terminated earlier at Lanting Jishi's sole discretion.

*Spousal consent letters:* Pursuant to spousal consent letters, the spouses of certain shareholders of Lanting Huitong acknowledged that the equity interests of Lanting Huitong held by and registered in the name of his/her spouse will be disposed of pursuant to the equity disposal and share pledge agreements. These spouses understand that such equity interests are held by their respective spouse on behalf of Lanting Jishi, and they will not take any action to interfere with the disposition of such equity

interests, including, without limitation, claiming that such equity interests constitute communal property of marriage. The spousal consent letters will be valid until the liquidation of Lanting Huitong, unless terminated earlier at Lanting Jishi's sole discretion.

*Loan Agreement:* Under the loan agreement entered into in December 2011 between Lanting Jishi and the CEO, Lanting Jishi extended a loan in the amount of RMB255,000 ($40,492) to the CEO to be contributed as 51% of the registered capital of Lanting Gaochuang. Under this agreement, the CEO agrees that without prior written consent from Lanting Jishi, Lanting Gaochuang may not enter into any transaction that could materially affect its assets, liabilities, interests or operations, and there will be no earnings distribution in any form by Lanting Gaochuang before such loan has been repaid. This loan can only be repaid by transferring all of the CEO's equity interest in Lanting Gaochuang to Lanting Jishi or a third party designated by Lanting Jishi, and submitting all proceeds from such transaction to Lanting Jishi. The loan agreement has a term of ten years and will be extended automatically, unless indicated otherwise by Lanting Jishi in writing three months prior to the contract expiration date.

**Agreements that transfer economic benefits to Lanting Jishi**

*Business operation agreements:* The shareholders of the VIEs and the VIEs agreed that the VIEs may not enter into any transaction that could materially affect the assets, liabilities, interests or operations of the VIEs, without prior written consent from Lanting Jishi or other party designated by Lanting Jishi. In addition, directors, supervisors, chairman, general managers, financial controllers or other senior managers of the VIEs must be Lanting Jishi's nominees. Lanting Jishi is entitled to any dividend declared by the VIEs. The business operation agreement will be valid until the liquidation of the VIEs, unless terminated earlier at Lanting Jishi's sole discretion.

*Exclusive technical support and consulting service agreements:* Lanting Jishi agreed to provide the VIEs with technology support and consulting services. The VIEs agreed to pay a service fee annually equal to substantially all of the net income of the VIEs. The exclusive technical support and consulting service agreement will be valid until the liquidation of the VIEs, unless terminated earlier at Lanting Jishi's sole discretion.

*Share pledge agreement:* The shareholders of the VIEs pledged all of their respective equity interests in favor of Lanting Jishi to secure the obligations of the VIEs, and the shareholders under the VIE agreements, including the business operation agreements, and the exclusive technical support and consulting service agreements described above. If the VIEs or any of the shareholders of the VIEs breaches any of their respective contractual obligations under these agreements, Lanting Jishi, as pledgee, will be entitled to certain rights, including the right to sell the pledged equity interests. The shareholders of the VIEs agreed not to transfer, sell, pledge, dispose of or otherwise create any new encumbrance on their respective equity interests in the VIEs, without Lanting Jishi's prior written consent. Unless terminated at Lanting Jishi's sole discretion, each share pledge agreement will be valid till the completion of all the contractual obligations of the VIEs, or any of the shareholders of the VIEs under the various agreements, including the business operation agreements, the technical support and consulting service agreements and equity disposal agreements.

Since the Company, through Lanting Jishi, its wholly owned subsidiary, has (1) the power to direct the activities of Lanting Huitong and Lanting Gaochuang that most significantly affect their economic performance and (2) the right to receive the benefits from them, the Company is the primary beneficiary of both entities and has consolidated them as VIEs since their respective inceptions.

**Risks in relation to VIE structure**

The Group believes that Lanting Jishi's contractual arrangements with the VIEs are in compliance with the PRC law and are legally enforceable. The shareholders of the VIEs are also shareholders of the Company and therefore have no current interest in seeking to act contrary to the contractual arrangements. However, uncertainties in the PRC legal system could limit the Group's ability to enforce these contractual arrangements and if the shareholders of the VIEs were to reduce their interest in the Company, their interests may diverge from that of the Company and that may potentially increase the risk that they would seek to act contrary to the contractual terms, for example by influencing the VIEs not to pay the service fees when required to do so. The Company's ability to control the VIEs also depends on the power of attorney Lanting Jishi has to vote on all matters requiring shareholder approval in the VIEs. As noted above, the Company believes this power of attorney is legally enforceable but may not be as effective as direct equity ownership.

In addition, if the legal structure and contractual arrangements were found to be in violation of any existing PRC laws and regulations, the PRC government could:

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

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

The following consolidated financial information of the Group's VIEs and their subsidiaries was included in the accompanying consolidated financial statements as of and for the years ended, after elimination of intercompany balances and transactions within the Group:

| | **As of December 31, 2013** | **As of December 31, 2014** |
|---|---|---|
| | *$* | *$* |
| Total assets | 2,042 | 2,988 |
| Total liabilities | 1,489 | 2,274 |

| | **Year ended December 31,** | | |
|---|---|---|---|
| | **2012** | **2013** | **2014** |
| | *$* | *$* | *$* |
| Net revenues | 2,743 | 300 | 58 |
| Net loss | (204) | (179) | (725) |

| | **Year ended December 31,** | | |
|---|---|---|---|
| | **2012** | **2013** | **2014** |
| | *$* | *$* | *$* |
| Net cash provided by operating activities | 200 | 647 | 769 |
| Net cash used in investing activities | (298) | (798) | (895) |

There are no consolidated VIEs' assets that are collateral for the VIEs' obligations and can only be used to settle the VIEs' obligations.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of presentation**

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

**Basis of consolidation**

The consolidated financial statements include the financial statements of the Company, its subsidiaries, its VIEs and VIE's subsidiary. All inter-company transactions and balances are eliminated upon consolidation.

**Use of estimates**

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the reported amount of revenues and expenses in the financial statements and accompanying notes. Actual results may differ from these estimates. The Group bases its estimates on historical experience and various other factors believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Significant accounting estimates reflected in the Group's financial statements include revenue recognition, inventory valuation, impairment of goodwill and intangible assets, fair value of ordinary shares, share-based compensation and income taxes.

**Cash and cash equivalents**

Cash and cash equivalents consist of cash on hand, demand deposits with financial institutions and term deposits with an original maturity of three months or less.

**Term deposit**

Term deposit with an original maturity of greater than three months and less than one year is classified as held-to-maturity investments and carried at amortized cost. The term deposits mature within one year and are subject to penalty for early withdrawal before their maturity.

**Restricted cash**

Restricted cash consists of cash which is held under the Group's name in an escrow account as deposits withheld by third party payment processing agencies and the deposits fluctuate with the volume of payment processed.

**Accounts receivable**

Accounts receivable represents cash collected by the delivery service providers on behalf of the Group, as a result of completed sales transactions in the PRC under cash-on-delivery terms, and has not been remitted back to the Group. As of December 31, 2013 and 2014, there was no allowance for doubtful accounts due to the nature of the receivables which is cash collected from customers and in-transit to the Group.

**Inventories**

Inventories are accounted for using the first-in-first-out method, and are valued at the lower of cost or market value. Adjustments are recorded to write down the cost of inventory to the estimated market value due to slow-moving merchandise and broken assortments, which is dependent upon factors such as historical trends with similar merchandise, inventory aging, and historical and forecasted consumer demand. Write downs are recorded in cost of goods sold in the consolidated statements of operations.

**Property and equipment, net**

Property and equipment, net is stated at cost less accumulated depreciation and amortization. Depreciation and amortization are calculated on a straight-line basis over the following estimated useful lives:

| | **Useful lives** |
|---|---|
| Leasehold improvements | Lesser of the lease term or estimated useful life of the assets |
| Furniture, fixtures and office equipment | 5 years |
| Software and IT equipment | 3 years |

**Acquired intangible assets, net**

Intangible assets, other than goodwill, resulting from the acquisitions of entities accounted for using the acquisition method of accounting are estimated by management based on the fair value of assets acquired.

Identifiable intangible assets are carried at cost less accumulated amortization. Amortization of technology and members are computed using the straight-line method over the estimated useful lives.

| | **Useful lives** |
|---|---|
| Domain name/Tradename | Indefinite life |
| Technology | 3 Years |
| Members | 4 Years |

**Impairment of long-lived assets and intangible assets with definite life**

Long-lived assets, such as property and equipment and definite-lived intangible assets, are stated at cost less accumulated depreciation or amortization.

The Group evaluates the recoverability of long-lived assets, including identifiable intangible assets, with determinable useful lives, whenever events or changes in circumstances indicate that an intangible asset's carrying amount may not be recoverable. The Group measures the carrying amount of long-lived asset against the estimated undiscounted future cash flows associated with it. Impairment exists when the sum of the expected future net cash flows is less than the carrying value of the asset being evaluated. Impairment loss is calculated as the amount by which the carrying value of the asset exceeds its fair value. Fair value is estimated based on various valuation techniques, including the discounted value of estimated future cash flows. The evaluation of asset impairment requires the Group to make assumptions about future cash flows over the life of the asset being evaluated. These assumptions require significant judgment and actual results may differ from assumed and estimated amounts.

**Impairment of Goodwill and Indefinite-lived intangible assets**

Goodwill and intangible assets deemed to have indefinite useful lives are not amortized, but tested for impairment annually or more frequently if event and circumstances indicate that they might be impaired.

Goodwill represents the excess of the purchase price over the fair value of identifiable net assets acquired in business combinations. The Group performs a two-step goodwill impairment test. The first step compares the fair values of each reporting unit to its carrying amount, including goodwill. If the fair value of a reporting unit exceeds its carrying amount, goodwill is not considered impaired and the second step will not be required. If the carrying amount of a reporting unit exceeds its fair value, the second step compares the implied fair value of the affected reporting unit's goodwill to the carrying value of that goodwill. The implied fair value of goodwill is determined in a manner similar to accounting for a business combination with the allocation of the assessed fair value determined in the first step to the assets and liabilities of the reporting unit. The excess of the fair value of the reporting unit over the amounts assigned to the assets and liabilities is the implied fair value of goodwill. This allocation process is only performed for purposes of evaluating goodwill impairment and does not result in an entry to adjust the value of any assets or liabilities. An impairment loss is recognized for any excess in the carrying value of goodwill over the implied fair value of goodwill. In estimating the fair value of each reporting unit the Group estimates the future cash flows of each reporting unit, the Group has taken into consideration the overall and industry economic conditions and trends, market risk of the Group and historical information.

An intangible asset that is not subject to amortization is tested for impairment at least annually or if events or changes in circumstances indicate that the asset might be impaired. Such impairment test compares the fair values of assets with their carrying value amounts and an impairment loss is recognized if and when the carrying amounts exceed the fair values. The estimates of fair values of intangible assets not subject to amortization are determined using various discounted cash flow valuation methodologies. Significant assumptions are inherent in this process, including estimates of discount rates.

**Business combinations**

The assets acquired, the liabilities assumed, and any noncontrolling interest of the acquiree at the acquisition date, if any, are measured at their fair values as of that date. Goodwill is recognized and measured as the excess of the total consideration transferred plus the fair value of any noncontrolling interest of the acquiree, if any, at the acquisition date over the fair values of the identifiable net assets acquired. Acquisition costs are expensed when incurred. Consideration transferred in a business acquisition is measured at the fair value as of the date of acquisition. For shares issued in a business combination, if any, the Group estimates the fair value as of the date of acquisition.

**Treasury stock**

Treasury stock represents shares of the Company's stock that have been issued, repurchased by the Company, and that have not been retired or canceled. These shares have no voting rights and are not entitled to receive dividends and excluded from the weighted average outstanding shares in calculation of net income per share. Treasury stock is recorded at cost.

**Revenue recognition**

Revenue is stated net of value added tax ("VAT") and return allowances.

The Group recognizes revenue from the sale of apparel, other general merchandise through its websites and other online platforms.

The Group recognizes revenue when the following four revenue recognition criteria are met:

(i) persuasive evidence of an arrangement exists, (ii) delivery has occurred, (iii) the selling price is fixed or determinable, and (iv) collectability is reasonably assured.

The Group defers the recognition of revenue and the related product costs for shipments that are in-transit to the customer. Payments received in advance of delivery are classified as advances from customers. The Group recognizes the revenue at the time the end customers receive the products. Amounts collected by delivery service providers but not remitted to the Group are classified as accounts receivable on the consolidated balance sheets.

Certain employees of the Group register in supplemental online outlets under their own name as these websites require registration using identity cards of individuals to sell the Group's product on behalf of the Group. The Group has contractual arrangements with these employees which require them to transfer customers' payments received to the Group for the sale of the products. The Group evaluates the sales transactions performed by these employees on behalf of the Group to determine whether to recognize the revenues on a gross or net basis. The determination is based upon an assessment as to whether the Group acts as a principal or agent when selling the products. All of the revenues involving employees performing sales transactions on the supplemental online outlets on behalf of the Group are currently accounted for on a gross basis since the Group is the primary obligor, has general and physical inventory risk, latitude in establishing prices, discretion in supplier selection and credit risks.

In arrangements whereby certain suppliers place the products at the Group's premises, the risk and rewards of ownership of the products passed to the Group upon confirmation of orders by the Group's customers. All of the revenues involving these arrangement are accounted for on a gross basis since the Group is the primary obligor, has physical inventory risk, takes legal title to the inventory when the orders are placed by end customers, latitude in establishing prices, discretion in supplier selection and credit risks.

The Group periodically provides incentive offers to its customers to encourage purchases. Current discount offers, when accepted by its customers, are treated as a reduction to the purchase price of the related transaction and are included as a net amount in revenue. The Group also provides discount reward, which may only be used in the future, to customers who have made a current purchase. As the right of receiving future discount does not represent a significant and incremental discount to the customer, the discount is treated as a reduction of revenue when the future transaction takes place.

The Group established a membership program whereby a registered member earns certain points for visiting one of the Group's websites. Points could only be redeemed in connection with a future purchase. Such points, when redeemed, were charged as costs of sales at the time of future purchase. Since the points were earned not based on past sales transactions, no accrual was made at the time when earned by the registered members.

Promotional free products, which cannot be redeemed for cash are normally shipped together with current qualified sales. Cost of these promotional items or free products are recorded as cost of sales when the revenue of the current qualified sales is recognized.

The Group allows customers to return goods within a period of time subsequent to the delivery of the goods purchased. The return period is 30 days after delivery. The Group estimates return allowance based on historical experience. The estimation of return allowances is adjusted to the extent that actual returns differ, or are expected to differ. Changes in the estimated return allowance are recognized through a cumulative catch-up adjustment in the period of change and will impact the amount of net revenues in that period.

Outbound shipping charges to customers are included as a part of the revenues. Outbound shipping-related costs are included in the cost of goods sold. Shipping costs incurred for sales of products and recognized as cost of goods sold were $40,694, $63,917 and $94,509 for the years ended December 31, 2012, 2013 and 2014 respectively.

VAT on sales is calculated at 17% on revenue from sale of products in the PRC and paid after deducting input-VAT on purchases. The net VAT balance between input-VAT and output-VAT is reflected in the accounts under prepaid expenses and other current assets or accrued expenses and other current liabilities.

**Cost of goods sold**

Cost of sales primarily consists of the purchase price of consumer products sold by the Group on its websites, inbound and outbound shipping charges, packaging supplies and inventory write-down. Shipping charges to receive products from its suppliers are included in inventory cost, and recognized as cost of sales upon sale of products to its customers.

**Fulfillment**

Fulfillment costs represent those costs incurred in operating and staffing the Group's fulfillment and customer service centers, including costs attributable to buying, receiving, inspecting, and warehousing inventories; picking, packaging, and preparing customer orders for shipment; payment processing and related transaction costs.

**Selling and marketing**

Selling and marketing expenses consist primarily of search engine marketing and advertising, affiliate market program expenditure, public relations expenditures; and payroll and related expenses for personnel engaged in selling, marketing and business development. The Group pays to use certain relevant key words relating to its business on major search engines and the fee is on a "cost-per-click" basis. The Group also pays commissions to participants in its affiliate program when customer referrals result in product sales, and the Group classifies such costs as selling and marketing expenses in the consolidated statements of operations. Advertising includes fees paid to on-line advertisers who assist the Group to advertise at targeted websites. Such fees are paid at fixed rate or calculated based on volume directed to the Group's website.

**General and administrative**

General and administrative expenses consist of payroll and related expenses for employees involved in general corporate functions such as accounting, finance, tax, legal, and human resources; costs associated with the use by these functions of facilities and equipment, such as depreciation expense and rent; professional fees and other general corporate costs. Also included in general and administrative expenses are payroll and related expenses for employees involved in product research and development, and systems support, as well as server charges and costs associated with telecommunications.

General and administrative expenses also include credit losses relating to fraudulent credit card activities which resulted in chargebacks from the payment processing agencies. The Group estimates chargebacks based on historical experience. The estimation of chargebacks is adjusted to the extent that actual chargebacks differ, or are expected to differ. Changes in estimated chargebacks are recognized through a cumulative catch-up adjustment in the period of change and will impact the amount of general and administrative expenses in that period.

**Fair value**

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

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

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

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

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

**Financial instruments**

Financial instruments of the Group primarily consist of cash and cash equivalents, term deposit, restricted cash, receivable from processing agencies, accounts payable. The carrying values of cash, term deposit, restricted cash, receivable from processing agencies and accounts payable approximate their fair values due to short-term maturities.

**Foreign currency translation**

The functional currency of the Company, Light In The Box, Lanting International, LightInTheBox Logistic, LITB, Inc., LightInTheBox (UK) Limited and LITB Netherlands B.V. is the United States dollar ("U.S. dollar"). The financial records of the Group's subsidiaries and VIE entities located in the PRC are maintained in their local currencies, the Renminbi ("RMB"), which are also the functional currencies of these entities.

Monetary assets and liabilities denominated in currencies other than the functional currency are translated into the functional currency at the rates of exchange ruling at the balance sheet date. Transactions in currencies other than the functional currency during the year are converted into functional currency at the applicable rates of exchange prevailing when the transactions occurred. Transaction gains and losses are recognized in the consolidated statements of operations.

The Group's entities with functional currency of RMB, translate their operating results and financial position into the U.S. dollar, the Group's reporting currency. Assets and liabilities are translated using the exchange rates in effect on the balance sheet date. Revenues, expenses, gains and losses are translated using the average rate for the year. Translation adjustments are reported as cumulative translation adjustments and are shown as a separate component of other comprehensive loss.

**Income taxes**

Deferred income taxes are provided using the asset and liability method. Under this method, deferred income taxes are recognized for tax credits and net operating losses available for carry forwards and significant temporary differences. Deferred tax assets and liabilities are classified as current or non-current based upon the classification of the related asset or liability in the financial statements or the expected timing of their reversal if they do not relate to a specific asset or liability. A valuation allowance is provided to reduce the amount of deferred tax assets if it is considered more likely than not that some portion of, or all of the deferred tax assets will not be realized. Current income taxes are provided for in accordance with the laws and regulations applicable to the Group as enacted by the relevant tax authorities.

The impact of an uncertain income tax position on the income tax return must be recognized at the largest amount that is more-likely-than not to be sustained upon audit by the relevant tax authority. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained. Interest and penalties on income taxes will be classified as a component of the provisions for income taxes. The Group did not recognize any income tax due to uncertain tax position or incur any interest and penalties related to potential underpaid income tax expenses for the years ended December 31, 2012, 2013 or 2014, respectively.

**Comprehensive loss**

Comprehensive loss includes net loss and foreign currency translation adjustments and is reported in the consolidated statements of comprehensive loss.

**Share-based compensation**

Share-based payment transactions with employees, such as share options are measured based on the grant date fair value of the equity instrument. The Group has elected to recognize compensation expense using the straight-line method for all employee equity awards granted with graded vesting provided that the amount of compensation cost recognized at any date is at least equal to the portion of the grant-date value of the options that are vested at that date, over the requisite service period of the award, which is generally the vesting period of the award. The estimate of forfeitures will be adjusted over the requisite service period to the extent that actual forfeitures differ, or are expected to differ, from such estimates. Changes in estimated forfeitures will be recognized through a cumulative catch-up adjustment in the period of change and will also impact the amount of share-based compensation expense to be recognized in future periods.

**Operating leases**

Leases where the rewards and risks of ownership of assets primarily remain with the lessor are accounted for as operating leases. Some of operating lease agreements of the Group contain provisions for future rent increases, rent free periods, or periods in which rent payments are reduced (abated). The total amount of rental payments due over the lease term is being charged to rent expense on the straight-line method over the term of the lease. The difference between rent expense recorded and the amount paid is credited or charged to other accrued expenses, which is included in "Accrued expenses and other current liabilities" in the accompanying consolidated balance sheets.

**Loss per share**

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

The Group's Series A convertible preferred shares, Series B convertible preferred shares and Series C convertible redeemable preferred shares are participating securities as the preferred shares participate in undistributed earnings on an as-if-converted basis. Nonvested shares are also participating securities as they enjoy identical dividend rights as ordinary shares. Accordingly, the Group uses the two-class method whereby undistributed net income is allocated on a pro rata basis to each participating share to the extent that each class may share in income for the period. Undistributed net loss is not allocated to preferred shares because they are not contractually obligated to participate in the loss allocated to the ordinary and nonvested shares.

Diluted loss per ordinary share reflects the potential dilution that could occur if securities were exercised or converted into ordinary shares. The Group had convertible preferred shares, convertible redeemable preferred shares, stock options, nonvested shares and convertible notes, which could potentially dilute basic earnings per share in the future. To calculate the number of shares for diluted income per share, the effect of the convertible preferred shares, convertible redeemable preferred shares and convertible notes is computed using the as-if-converted method; and the effect of the stock options and nonvested shares is computed using the treasury stock method.

**Significant risks and uncertainties**

The Group participates in an industry with rapid changes in regulations, customer demand and competition and believes that changes in any of the following areas could have a material adverse effect on the Group's future financial position, results of operations, or cash flows: advances and trends in e-commerce industry; changes in certain supplier and vendor relationships; regulatory or other PRC related factors; and risks associated with the Group's ability to keep and increase the market coverage.

**Concentration of credit risk**

Financial instruments that potentially expose the Group to concentrations of credit risk consist primarily of cash and cash equivalents, accounts receivable and advances to suppliers. The Group places its cash and cash equivalents with financial institutions located in the Cayman Islands, the PRC and Hong Kong. Accounts receivable primarily comprise amounts receivable from product delivery service providers. These amounts are collected from customers by the service providers upon product delivery. With respect to advances to product suppliers, the Group performs on— going credit evaluations of the financial condition of its suppliers.

**Foreign currency risk**

The RMB is not a freely convertible currency. The PRC State Administration for Foreign Exchange, under the authority of the People's Bank of China, controls the conversion of RMB into foreign currencies. The value of the RMB is subject to changes in central government policies and to international economic and political developments affecting supply and demand in the China foreign exchange trading system market. The Group's cash and cash equivalents denominated in RMB amounted to $683, $56,602 and $48,144 at December 31, 2012, 2013 and 2014, respectively.

**Recent accounting pronouncements**

In May 2014, the FASB issued a new pronouncement which affects any entity using U.S. GAAP that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (e.g., insurance contracts or lease contracts). This accounting standard updates ("ASU") will supersede the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance. This ASU also supersedes some cost guidance included in Subtopic 605-35, Revenue Recognition — Construction-Type and Production-Type Contracts. In addition, the existing requirements for the recognition of a gain or loss on the transfer of nonfinancial assets that are not in a contract with a customer (e.g., assets within the scope of Topic 360, Property, Plant, and Equipment, and intangible assets within the scope of Topic 350, Intangibles — Goodwill and Other) are amended to be consistent with the guidance on recognition and measurement (including the constraint on revenue) in this ASU.

The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps:

- Step 1: Identify the contract(s) with a customer.
- Step 2: Identify the performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligations in the contract.
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

For a public entity, the amendments in this ASU are effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application is not permitted.

An entity should apply the amendments in this ASU using one of the following two methods:

1. Retrospectively to each prior reporting period presented and the entity may elect any of the following practical expedients:

    - For completed contracts, an entity need not restate contracts that begin and end within the same annual reporting period.
    - For completed contracts that have variable consideration, an entity may use the transaction price at the date the contract was completed rather than estimating variable consideration amounts in the comparative reporting periods.
    - For all reporting periods presented before the date of initial application, an entity need not disclose the amount of the transaction price allocated to remaining performance obligations and an explanation of when the entity expects to recognize that amount as revenue.

2. Retrospectively with the cumulative effect of initially applying this ASU recognized at the date of initial application. If an entity elects this transition method it also should provide the additional disclosures in reporting periods that include the date of initial application of:

    - The amount by which each financial statement line item is affected in the current reporting period by the application of this ASU as compared to the guidance that was in effect before the change.
    - An explanation of the reasons for significant changes.

The Company is currently evaluating the impact on its consolidated financial statements of adopting this guidance.

In June 2014, the FASB issued a new pronouncement which requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. A reporting entity should apply existing guidance in Topic 718, Compensation — Stock Compensation, as it relates to awards with performance conditions that affect vesting to account for such awards. The performance target should not be reflected in estimating the grant-date fair value of the award. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. If the performance target becomes probable of being achieved before the end of the requisite service period, the remaining unrecognized compensation cost should be recognized prospectively over the remaining requisite service period. The total amount of compensation cost recognized during and after the requisite service period should reflect the number of awards that are expected to vest and should be adjusted to reflect those awards that ultimately vest. The requisite service period ends when the employee can cease rendering service and still be eligible to vest in the award if the performance target is achieved.

The amendments in this ASU are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Earlier adoption is permitted. The Group does not expect the adoption of this guidance will have a significant effect on its consolidated financial statements.

In August, 2014, the FASB issued a new pronouncement which provides guidance on determining when and how reporting entities must disclose going-concern uncertainties in their financial statements. The new standard requires management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year of the date of issuance of the entity's financial statements. Further, an entity must provide certain disclosures if there is "substantial doubt about the entity's ability to continue as a going concern." The new standard is effective for fiscal years ending after December 15, 2016. The Group does not expect the adoption of this guidance will have a significant effect on its consolidated financial statements.

## 3. PREPAID EXPENSES AND OTHER CURRENT ASSETS

Components of other current assets which are included in the prepaid expenses and other current assets are as follows:

| | As of December 31, | |
|---|---|---|
| | 2013 | 2014 |
| | *$* | *$* |
| Receivable from processing agencies *(1)* | 4,659 | 2,332 |
| Prepayment to suppliers | 1,525 | 1,166 |
| Interest receivable | 721 | 297 |
| Option exercise receivable | 663 | 130 |
| Rental deposits and prepaid rents | 339 | 414 |
| Staff advance | 104 | 24 |
| Others | 879 | 826 |
| Total | 8,890 | 5,189 |

(1) Receivables from processing agencies represented cash that had been received from customers but held by the processing agencies as of December 31, 2013 and 2014. The receivables were collected by the Group subsequent to the respective period end.

## 4. PROPERTY AND EQUIPMENT, NET

The components of property and equipment are as follows:

| | As of December 31, | |
|---|---|---|
| | 2013 | 2014 |
| | *$* | *$* |
| Leasehold improvements | 3,043 | 3,723 |
| Furniture, fixtures and office equipment | 1,817 | 2,431 |
| Software and IT equipment | 2,099 | 3,059 |
| Property and equipment, gross | 6,959 | 9,213 |
| *Less:* Accumulated depreciation | (3,957) | (5,549) |
| Property and equipment, net | 3,002 | 3,664 |

Depreciation expenses incurred for the years ended December 31, 2012, 2013 and 2014 are $1,031, $1,361and $1,838, respectively.

## 5. GOODWILL

On December 31, 2013, the Group acquired the fashion-focused site business from Ador Inc. The acquired assets were recorded at fair value at the date of acquisition, including net working capital of $44, goodwill of $690 and other intangible assets of $266.

The changes in the carrying amount of goodwill for the years ended December 31, 2013 and 2014 were as follows:

| | 2013<br>Ador<br>*$* | 2014<br>Ador<br>*$* |
|---|---|---|
| Beginning balance | — | 690 |
| Charge for the year | 690 | — |
| Ending balance | 690 | 690 |

## 6. ACQUIRED INTANGIBLE ASSETS, NET

The Group's intangible assets, presented in the following table, arose from the acquisition of Shanghai Ouku on May 24, 2010 and the acquisition of the fashion-focused site business from Ador Inc. on December 31, 2013.

| | December 31, 2013 | | | | December 31, 2014 | | | |
|---|---|---|---|---|---|---|---|---|
| | Gross carrying amount<br>*$* | Accumulated amortization<br>*$* | Accumulated impairment loss<br>*$* | Net carrying amount<br>*$* | Gross carrying amount<br>*$* | Accumulated amortization<br>*$* | Accumulated impairment loss<br>*$* | Net carrying amount<br>*$* |
| Intangible assets not subject to amortization: | | | | | | | | |
| Trademark/Domain Name | 1,220 | — | (1,010) | 210 | 1,220 | — | (1,010) | 210 |
| Intangible assets subject to amortization: | | | | | | | | |
| — Technology Platform | 90 | (90) | — | — | 90 | (90) | — | — |
| — Non-compete Agreement | 9 | (7) | (2) | — | 9 | (7) | (2) | — |
| — Customer Base | 32 | (22) | (10) | — | 32 | (22) | (10) | — |
| — Technology | 36 | — | — | 36 | 36 | (12) | — | 24 |
| — Members | 20 | — | — | 20 | 20 | (5) | — | 15 |
| | 1,407 | (119) | (1,022) | 266 | 1,407 | (136) | (1,022) | 249 |

The amortization expenses incurred for the years ended December 31, 2012, 2013 and 2014 were nil, nil and $17, respectively. The Group expects to record amortization expenses of $17, $17, $5 and nil for the years ended December 31, 2015, 2016, 2017, and 2018, respectively.

## 7. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

| | As of December 31, | |
|---|---|---|
| | **2013** | **2014** |
| | *$* | *$* |
| Accrued payroll and staff welfare | 9,147 | 13,154 |
| Individual income tax withheld | 875 | 621 |
| VAT payable | 152 | 327 |
| Accrued professional fees | 1,950 | 2,284 |
| Accrued advertising fees | 1,004 | 5,343 |
| Credit card processing charges | 401 | 449 |
| Accrued sales return *(1)* | 751 | 1,417 |
| Other accrued expenses | 1,280 | 1,474 |
| Total | 15,560 | 25,069 |

(1) Accrued sales return represents the estimated sales return at the end of each of the respective years, and assumes products returned will have no value to the Group. Movements during the respective years are as follows:

| | **2013** | **2014** |
|---|---|---|
| | *$* | *$* |
| Balance at January 1 | 116 | 751 |
| Allowance for sales return made in the year | 9,897 | 14,418 |
| Utilization of accrued sales return | (9,262) | (13,752) |
| Balance at December 31 | 751 | 1,417 |

## 8. ORDINARY SHARES

In June 2013, the Company completed its IPO of ADSs on the New York Stock Exchange with a total issuance of 8,492,368 ADSs at issuing price of $9.5 per ADS. Each ADS represents two ordinary shares of the Company. As such, the total ADSs represent 16,984,736 ordinary shares. Total net proceeds received were $75,030 from the IPO and the concurrent private placements, net of offering costs of $4,235.

In December 2013, the board of directors approved the Company to repurchase up to $20,000 of its own outstanding ADSs within one year from December 2013. Pursuant to the share repurchase plan, the Company repurchased 1,868,726 ADSs as of December 31, 2014, representing 3,737,452 ordinary shares, with a total consideration of approximately $10,957. The shares repurchased by the Company were accounted for at cost as treasury stock.

## 9. SHARE OPTIONS

On October 27, 2008, the Company adopted the 2008 Share Incentive Option Plan ("2008 Plan") for the granting of share options to employees to reward them for services provided to the Company and to provide incentives for future services. Pursuant to the 2008 Plan, total shares that the 2008 Plan was authorized to grant were 4,444,444 shares. In May 2014, the Company authorized the issuance of an additional 6,900,000 ordinary shares to support the Company's business expansion and recruiting plans. The majority of the options will vest over four years where 25% of the options will vest at the end of the first year after the grant date through the fourth year. The share options expire 10 years from the date of grant.

In 2011, the Company granted 484,000 share options under the 2008 Plan to employees at exercise prices ranged from $0.96 to $4.29 per share, respectively. These share options vest over a period ranged from three to four years.

In 2013, the Company granted 307,250 share options under the 2008 Plan to employees at exercise price of $4.75 per share. These share options vest over a period ranged from three to four years.

In 2014, the Company granted 1,797,300 share options under the 2008 Plan to employees at exercise prices ranged from $1.84 to $3.26 per share. These share options vest over a period ranged from three to four years.

The fair value of each option granted was estimated on the date of grant using binomial option pricing model with the following assumptions during the applicable periods:

| | 2013 | 2014 |
|---|---|---|
| Risk-free interest rate | 3.06%-3.83% | 3.75%-4.05% |
| Exercise multiple | 2-2.8 | 2.2-2.8 |
| Expected volatility | 56%-60% | 57.09%-63.88% |
| Expected dividend yield | 0% | 0% |
| Fair value of ordinary shares | $4.75-$4.97 | $2.53-$3.26 |

**(1) Risk-free interest rate**

Risk-free interest rate was estimated based on the yield to maturity of China international government bonds with a maturity period close to the contractual term of the options.

**(2) Exercise multiple**

Exercise multiple represents the value of the underlying share as a multiple of exercise price of the option which, if achieved, results in exercise of the option.

**(3) Volatility**

The volatility of the underlying ordinary shares during the life of the options was estimated based on the historical stock price volatility of comparable listed companies over a period comparable to the contractual term of the options.

**(4) Dividend yield**

The dividend yield was estimated by the Group based on its expected dividend policy over the contractual term of the options.

**(5) Fair value of underlying ordinary shares**

Before the Company's IPO, the estimated fair value of the ordinary shares underlying the options as of the respective grant dates was determined based on a retrospective valuation. When estimating the fair value of the ordinary shares on the grant dates, management has considered a number of factors, including the result of the third-party appraisals prepared by independent valuation firms, and equity transactions of the Company.

After the Company's IPO, the fair value of the underlying ordinary shares is determined based on the closing market price of the ADS of the Company as of the grant date.

A summary of the stock option activity under the 2008 Plan as of December 31, 2014, and changes during the year then ended is presented below:

| | Options granted | Weighted average exercise price per option |
|---|---|---|
| | | *$* |
| Outstanding at January 1, 2014 | 1,562,850 | 1.71 |
| Granted | 1,797,300 | 2.53 |
| Exercised | (548,800) | 0.37 |
| Forfeited | (305,050) | 3.87 |
| Outstanding at December 31, 2014 | 2,506,300 | 2.35 |

The following table summarizes information regarding the share options granted as of December 31, 2014:

| | As of December 31, 2014 | | | |
|---|---|---|---|---|
| | Options Number | Weighted-average exercise price per option | Weighted-average remaining contractual life (years) | Aggregate intrinsic value |
| | | *$* | | *$* |
| Options | | | | |
| Outstanding | 2,506,300 | 2.35 | 8.26 | 2,712 |
| Exercisable | 669,238 | 0.67 | 8.26 | 1,559 |
| Expected to vest | 1,469,650 | 2.69 | 9.35 | 922 |

The total intrinsic value of options exercised during the years ended December 31, 2012, 2013 and 2014 were nil, $1,235, and $119, respectively.

The weighted average grant date fair value of options granted during the years ended December 31, 2013 and 2014 was $2.45 and $1.42, respectively.

For the years ended December 31, 2012, 2013 and 2014, the Group recorded share-based compensation expense of $216, $280 and $291 related to the options under the 2008 Plan, respectively. As of December 31, 2014, there was $1,054 of unrecognized compensation cost related to the options, which is expected to be recognized over a weighted-average period of 3.2 years.

## 10. NONVESTED SHARES

**Nonvested shares granted to employees under the 2008 Plan**

In 2011, the Company granted 1,820,010 nonvested shares to certain employees. These nonvested shares vest over a four year period from the date of the grant.

In 2013, the Company granted 711,571 nonvested shares to certain officers and employees. These nonvested shares vest over a period ranged from two to four years.

In 2014, the Company granted 2,800,300 nonvested shares to certain officers and employees. These nonvested shares vest over a period ranged from three to four years.

The holders of the nonvested shares are entitled to voting rights, but shall not be entitled to dividends before vesting.

The following table summarizes information regarding the nonvested shares granted and vested:

| | Number of Shares | Weighted average grant date fair value |
|---|---|---|
| | | *$* |
| Outstanding at January 1, 2014 | 995,202 | 4.52 |
| Granted | 2,800,300 | 2.54 |
| Forfeited | (601,155) | 3.47 |
| Vested | (611,010) | 3.88 |
| Outstanding at December 31, 2014 | 2,583,337 | 2.58 |

The total fair value of shares vested during the years ended December 31, 2012, 2013 and 2014, was 19,318, 3,453, and 2,123 respectively.

For the years ended December 31, 2012, 2013 and 2014, the Group recorded share-based compensation expenses of $2,479, $4,038 and $2,227 related to the nonvested shares, respectively. As of December 31, 2014, there was $2,286 of unrecognized compensation costs related to nonvested shares, which are expected to be recognized over a weighted-average period of 3.47 years.

Total share-based compensation expenses for the years ended December 31, 2012, 2013 and 2014 were as follows:

| | Year ended December 31, | | |
|---|---|---|---|
| | 2012 | 2013 | 2014 |
| | *$* | *$* | *$* |
| Fulfillment | 10 | 9 | 46 |
| Selling and marketing | 117 | 134 | 231 |
| General and administrative | 2,568 | 4,175 | 2,241 |
| Total | 2,695 | 4,318 | 2,518 |

## 11. INCOME TAXES

**Cayman Islands**

The Company is a tax-exempted company incorporated in the Cayman Islands and is not subject to tax on income or capital gains.

**Hong Kong**

Light In The Box, Lanting International and LightInTheBox Logistic are located in Hong Kong and subject to Hong Kong profits tax at 16.5% with respect to the profit generated from Hong Kong.

**PRC**

Except Lanting Huitong and Lanting Gaochuang, other entities of the Group domiciled in the PRC are subject to 25% statutory income tax rates in accordance with the Enterprise Income Tax Law ("EIT Law") in the periods presented. Lanting Huitong qualified as a "software enterprise" and therefore enjoyed a two-year income tax exemption starting from 2010, the first profit making year, followed by a reduced tax rate of 12.5% for the subsequent three years. Lanting Gaochuang qualified as a "software enterprise" in 2012 and therefore is entitled to a two-year income tax exemption starting from 2013, its first profit making year, followed by a reduced tax rate of 12.5% for the subsequent three years.

For the years ended December 31, 2012, 2013 and 2014, income tax expense included in the consolidated statements of operations were attributable to the Group's PRC subsidiary and VIEs and comprised current tax expense $19, $69 and $70, respectively. There was no material deferred tax expense for the years ended December 31, 2012, 2013 and 2014.

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

| | As of December 31, | |
|---|---|---|
| | **2013** | **2014** |
| | *$* | *$* |
| Current deferred tax assets: | | |
| Accrued payroll | 638 | 2,885 |
| Accrued expenses | 45 | 214 |
| Accrued inventory provision | — | 132 |
| *Less:* Valuation allowance | (683) | (3,231) |
| Current deferred tax assets, net | — | — |
| Non-current deferred tax asset: | | |
| Net operating loss carry forwards | 7,959 | 10,476 |
| *Less:* Valuation allowance | (7,959) | (10,476) |
| Non-current deferred tax asset, net | — | — |
| Total deferred tax asset, net | — | — |

The Group had no deferred tax liabilities as of December 31, 2012, 2013 and 2014.

The Group operates through its subsidiaries and VIE entities and the valuation allowance is considered on each individual subsidiary and VIE basis. The net operating loss carry forwards of the subsidiaries and VIE registered in the PRC will expire on various dates through 2019. The Group has recognized a full valuation allowance against deferred tax assets as the Group believes that it is more likely than not that its deferred tax assets will not be realized as it does not expect to generate sufficient taxable income in the near future.

**Movement of valuation allowance**

| | **2013** | **2014** |
|---|---|---|
| | *$* | *$* |
| Balance at beginning of the period | 8,840 | 8,642 |
| Additions | 228 | 5,683 |
| Reversals | (426) | (618) |
| Balance at end of the period | 8,642 | 13,707 |

Reconciliation between the expense of income taxes computed by applying the PRC tax rate to loss before income taxes and the actual provision for income taxes is as follows:

| | **Years ended December 31,** | | |
|---|---|---|---|
| | **2012** | **2013** | **2014** |
| | *$* | *$* | *$* |
| Loss before provision of income tax | (4,211) | (4,750) | (29,917) |
| Statutory tax rate in the PRC | 25% | 25% | 25% |
| Income tax at statutory tax rate | (1,053) | (1,187) | (7,479) |
| Non-deductible expenses | 403 | 225 | 92 |
| Effect of income tax holiday and preferential tax rates | (41) | (62) | (76) |
| Effect of income tax rate differences in jurisdictions other than the PRC | 1,105 | 1,291 | 2,468 |
| Changes in valuation allowances | (395) | (198) | 5,065 |
| Income tax expense | 19 | 69 | 70 |

The Group did not identify significant unrecognized tax benefits for the years ended December 31, 2013 and 2014. The Group did not incur any interest related to unrecognized tax benefits, did not recognized any penalties as income tax expenses and also does not anticipate any significant change in unrecognized tax benefits within 12 months from December 31, 2014.

Uncertainties exist with respect to how the current income tax law in the PRC applies to the Group's overall operations, and more specifically, with regard to tax residency status. The EIT Law includes a provision specifying that legal entities organized outside of the PRC will be considered residents for Chinese Income tax purposes if the place of effective management or control is within the PRC. The implementation rules to the new EIT law provide that non-resident legal entities will be considered PRC residents if substantial and overall management and control over the manufacturing and business operations, personnel, accounting and properties occurs within the PRC. On April 22, 2009, the State Administration of Taxation (the "SAT") issued the Notice Regarding the Determination of Chinese-Controlled Offshore Incorporated Enterprises as PRC Tax Resident Enterprises on the Basis of De Facto Management Bodies, or Circular 82, which provides certain specific criteria for determining whether the "de facto management body" of a Chinese-controlled offshore-incorporated enterprise is located in China. In addition, on August 3, 2011, the SAT issued a bulletin to made clarification in the areas of resident status determination, post-determination administration, as well as competent tax authorities. The Group does not believe that the legal entities organized outside of the PRC within the Group should be treated as residents for EIT law purposes. However, if the PRC tax authorities subsequently determine that the Company and its subsidiaries registered outside the PRC should be deemed resident enterprises, the Company and its subsidiaries registered outside the PRC will be subject to the PRC income taxes, at a rate of 25%.

If any entity within the Group that is outside the PRC were to be a non-resident for PRC tax purposes dividends paid to it out of profits earned after January 1, 2008 would be subject to a withholding tax at a rate of 10%, subject to reduction by an applicable tax treaty with the PRC. As of December 31, 2013 and December 31, 2014, the Company's subsidiaries located in the PRC recorded aggregate accumulated deficits. Accordingly, no deferred tax liability has been accrued for the Chinese dividend withholding taxes. In the future, aggregate undistributed earnings of the Company's subsidiaries located in the PRC, if any, that are taxable upon distribution to the Company, will be considered to be indefinitely reinvested, because the Group does not have any plan to pay cash dividends on its ordinary shares in the foreseeable future and intends to retain most of its available funds and any future earnings for use in the operation and expansion of its business.

In accordance with relevant the PRC tax administration laws, tax years from 2009 to 2013 of the Group's PRC entities remain subject to tax audits as of December 31, 2014, at the tax authority's discretion.

## 12. LOSS PER SHARE

The following table sets forth the computation of basic and diluted net loss per ordinary share for the following years:

| | 2012 | 2013 | 2014 |
|---|---|---|---|
| | *$* | *$* | *$* |
| **Numerator:** | | | |
| Net loss | (4,230) | (4,819) | (29,987) |
| Accretion of Series C convertible redeemable preferred shares | 2,971 | 1,621 | — |
| **Net income attributable to Series C preferred shares for computing basic net income per Series C preferred share** | 2,971 | 1,621 | — |
| **Net loss attributable to ordinary shareholders of LightInTheBox Holding Co., Ltd.** | (7,201) | (6,440) | (29,987) |
| Net loss attributable to shareholders of the Company allocated for computing net loss per ordinary share-basic | (6,843) | (6,440) | (29,987) |
| Net loss attributable to shareholders of the Company allocated for computing net loss per nonvested share-basic | (358) | — | — |
| Net loss per ordinary share-basic | (0.20) | (0.09) | (0.30) |
| Net loss per nonvested share-basic | (0.20) | — | — |
| Net loss per ordinary share-diluted | (0.20) | (0.09) | (0.30) |
| Net income per Series C preferred share | 0.31 | 0.38 | — |
| **Numerator** | | | |
| **Shares (denominator):** | | | |
| Weighted average number of shares used in calculating net loss per nonvested share-basic | 1,792,535 | — | — |
| Weighted average number of shares used in calculating net loss per Series A preferred share-basic | 15,000,000 | 6,616,438 | — |
| Weighted average number of shares used in calculating net loss per Series B preferred share-basic | 17,522,725 | 7,729,202 | — |
| Weighted average number of shares used in calculating net loss per Series C preferred share-basic | 9,651,565 | 4,257,266 | — |
| Weighted average number of shares used in calculating net loss per ordinary share-basic | 34,316,430 | 71,555,449 | 99,001,560 |

As a result of the Group's net loss for each of the three years ended December 31, 2014, 1,778,250, 1,562,850 and 2,506,300 options outstanding and 1,054,778, 995,202 and 2,583,337 nonvested shares outstanding as of December 31, 2012, 2013 and 2014, respectively, were excluded from the computation of diluted net loss per share as their inclusion would have been anti-dilutive.

## 13. EMPLOYEE RETIREMENT BENEFIT

Full time employees in the PRC participate in a government-mandated defined contribution plan pursuant to which certain pension benefits, medical care, unemployment insurance, employee housing fund and other welfare benefits are provided to employees. The PRC labor regulations require the Group to make contributions based on certain percentages of the employees' basic salaries. Other than the contribution, there is no further obligation under these plans. The total contribution for such employee benefits was $3,848, $5,603 and $5,544 for the years ended December 31, 2012, 2013 and 2014, respectively.

## 14. STATUTORY RESERVES AND RESTRICTED NET ASSETS

In accordance with the PRC laws and regulations, the group is required to provide for certain statutory reserves, namely general reserve, enterprise expansion reserve, and staff welfare and bonus reserve, all of which are appropriated from net profit as reported in their PRC statutory accounts. The Group's subsidiaries are required to allocate at least 10% of their after-tax profits to the general reserve until such reserve has reached 50% of their respective registered capital.

Appropriations to the enterprise expansion reserve and the staff welfare and bonus reserve are to be made at the discretion of the board of directors of each of the Group's subsidiaries. There are no appropriations to these reserves by the Group's PRC (mainland) subsidiaries for the years ended December 31, 2012, 2013 and 2014.

As a result of these PRC laws and regulations and the requirement that distributions by the PRC entities can only be paid out of distributable profits computed in accordance with the PRC GAAP, the PRC entities are restricted from transferring a portion of their net assets to the Group. Amounts restricted include paid-in capital and the statutory reserves of the Company's PRC subsidiaries and VIE. As of December 31, 2014, the amounts of capital represented the amount of net assets of the relevant subsidiaries and VIE in the Group not available for distribution amounted to $4,293.

## 15. SEGMENT REPORTING

The Group's chief operating decision maker has been identified as the Chief Executive Officer, who reviews the consolidated results when making decisions about allocating resources and assessing performance of the Group. The Group has one operating segment.

Components of the Group's net revenues are presented in the following table:

| | **For the years ended December 31,** | | |
|---|---|---|---|
| | **2012** | **2013** | **2014** |
| | *$* | *$* | *$* |
| Apparel | 80,274 | 86,459 | 138,570 |
| Other general merchandise | 119,736 | 205,958 | 243,837 |
| Total net revenues | 200,010 | 292,417 | 382,407 |

The following table summarizes the Group's total net revenues generated in different geographic locations and as a percentage of total net revenues.

| | For the years ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2012 | | 2013 | | 2014 | |
| | Revenues | % | Revenues | % | Revenues | % |
| | $ | | $ | | $ | |
| Europe | 101,424 | 50.7 | 182,958 | 62.5 | 239,176 | 62.5 |
| North America | 47,985 | 24.0 | 54,858 | 18.8 | 81,675 | 21.4 |
| Other countries | 50,601 | 25.3 | 54,601 | 18.7 | 61,556 | 16.1 |
| Total net revenues | 200,010 | 100 | 292,417 | 100 | 382,407 | 100 |

North America's net revenues include revenues from the United States of, $41,840, $46,136 and $65,376 during the years ended December 31, 2012, 2013 and 2014, respectively. Europe's net revenues include revenues from France of $32,913, $42,504 and $52,264 during the years ended December 31, 2012, 2013 and 2014, respectively.

As of December 31, 2012, 2013 and 2014 substantially all of long-lived assets of the Group are located in the PRC.

## 16. FAIR VALUE MEASUREMENTS

The Group had no financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2012, December 31, 2013 and December 31, 2014.

Goodwill and other intangible assets are measured at fair value on a nonrecurring basis when impairment is recognized. The Group estimated the fair value of a reporting unit using the discounted cash flow method under the income approach. The discounted cash flows were based on five years financial forecasts developed by management for planning purposes and estimated discount rates. Cash flows beyond the forecasted period were estimated using a terminal value calculation. The fair values of intangible asset were determined based on various valuation methods, including the replacement cost method the relief from royalty method.

## 17. RELATED PARTY TRANSACTIONS

The Company entered into indemnification agreements with certain directors. These agreements require the company to indemnify such individuals, to the fullest extent permitted by law, for certain liabilities to which they may become subject to as a result of their affiliation with the Company.

## 18. COMMITMENTS AND CONTINGENCIES

### (1) Commitments

***Lease commitment***

The Group has operating lease agreements for warehouses and offices. Rent expenses under operating leases for the years ended December 31, 2012, 2013 and 2014 were $2,074, $3,005 and $3,906, respectively. Future minimum lease payments under non-cancellable operating lease agreements as of December 31, 2014 are as follows:

| | *$* |
|---|---:|
| 2015 | 4,388 |
| 2016 | 1,201 |
| 2017 | 344 |
| | 5,933 |

### (2) Contingencies

The Company's PRC subsidiary, VIE and VIE's subsidiary, have not fully paid the contributions for employee benefit plans as required by applicable PRC regulations. While the Company believes it has made adequate provision of such outstanding amounts in the audited consolidated financial statements, prior failure to make payments may be in violation of applicable PRC labor-related laws and the Group may be subject to a maximum of 3 times fines if it fails to rectify any such breaches within the period prescribed by the relevant authorities. As of December 31, 2014, there had been no actions initiated by the relevant authorities. The Group is unable to reasonably estimate the actual amount of fines and penalty that may rise if the authorities were to become aware of the non-compliance and were to take action.

The Company's PRC subsidiary, VIEs and VIEs' subsidiary did not withhold appropriate amount of individual income tax prior to its IPO as required by applicable PRC tax laws. While the Company believes it has made adequate provision of such outstanding amounts in the consolidated financial statements, and in March 2013, the accrued amounts were substantially paid by the Company on a voluntary basis to the relevant tax authority, the Company may still be subject to future fines or levies for such non-compliance. As of December 31, 2014, there had been no actions initiated by the relevant authorities. The Group is unable to reasonably estimate the actual amount of fines or levies that may rise if the authorities were to take action.

The Group is subject to periodic legal or administrative proceedings in the ordinary course of business. The Group does not believe that any currently pending legal or administrative proceeding to which the Group is a party will have a material effect on its business or financial condition.

On August 27, 2013, the Company was named as a defendant in the first of three putative shareholder class action lawsuits filed in the United States District Court for the Southern District of New York. These three actions have been consolidated under the master caption In re LightInTheBox Holding Co., Ltd. Securities Litigation, No. 13-cv-6016. On March 14, 2014, the lead plaintiff filed a consolidated second amended complaint purportedly on behalf of a class of purchasers of the Company's ADSs during the period from June 6, 2013 to August 19, 2013, inclusive. The complaint generally alleges that the registration statement and prospectus filed in connection with the Company's initial public offering contained misrepresentations regarding the Company's customers, revenue growth, marketing efforts, and costs of revenue, and failed to disclose, among other things, a decline in the sales of the Company's apparel business during the second quarter of 2013. Plaintiff asserts claims and seeks unspecified damages against the Company and/or certain of the current and former executive officers for violation of sections 10(b) and 20(a) of the Exchange Act. On April 17, 2014, the court granted the Company leave to move to dismiss the complaint for failure to state a claim as a matter of law. On July 17, 2014, the Company and lead plaintiff participated in a mediation, and reached an agreement-in-principle to settle the consolidated action. On September 4, 2014, the parties executed Settlement Agreement (the "Settlement") memorializing their agreement. Pursuant to the Settlement, the Company would contribute $1,550 to a settlement fund, and lead plaintiff, on behalf of the settlement class, would release all claims against the Company and Defendants the current and former executive officer. As a result, The Group subsequently paid $1,550 settlement cost, and recorded such settlement cost in the general and administrative expenses for the year ended December 31, 2014.

**19. SUBSEQUENT EVENTS**

On February 6, 2015, the Group acquired 30% equity interest of Shantou Demon Network Technology Co., Ltd. ("Demon"), with $2,100 cash consideration. Demon owns an online website specialized in cross-border packages tracking. The Group has significant influence but does not have control over Demon. Accordingly the Group recorded it as an equity method investment.

**LIGHTINTHEBOX 2015 ANNUAL REPORT**

**Report of Independent Registered Public Accounting Firm**

**TO THE BOARD OF DIRECTORS AND SHAREHOLDERS OF LIGHTINTHEBOX HOLDING CO., LTD.**

We have audited the accompanying consolidated balance sheets of LightInTheBox Holding Co., Ltd. (the "Company"), its subsidiaries, its variable interest entities (the "VIEs") and its VIE's subsidiary (collectively the "Group") as of December 31, 2014 and 2015, and the related consolidated statements of operations, comprehensive loss, changes in equity (deficit), and cash flows for each of the three years in the period ended December 31, 2015. Our audits also included the financial statement schedule included in Schedule I. These financial statements and financial statement schedule are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Group is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Group as of December 31, 2014 and 2015, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2015, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

Deloitte Touche Tohmatsu Certified Public Accountants LLP
Beijing, the People's Republic of China
April 29, 2016

**Consolidated Balance Sheets**

*(U.S. dollars in thousands, except share data and per share data, or otherwise noted)*

| | December 31, | |
|---|---|---|
| | **2014** | **2015** |
| | *$* | *$* |
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | 75,358 | 30,901 |
| Term deposit | 5,802 | — |
| Restricted cash | 2,267 | 1,606 |
| Accounts receivable | 695 | 920 |
| Inventories | 9,845 | 11,261 |
| Prepaid expenses and other current assets | 5,189 | 5,053 |
| Total current assets | 99,156 | 49,741 |
| Property and equipment, net | 3,664 | 2,209 |
| Intangible assets, net | 249 | 232 |
| Goodwill | 690 | 690 |
| Long-term rental deposit | 708 | 658 |
| Long-term investment | — | 1,963 |
| TOTAL ASSETS | 104,467 | 55,493 |

| | December 31, | |
|---|---|---|
| | 2014 | 2015 |
| | *$* | *$* |
| LIABILITIES AND EQUITY | | |
| Current Liabilities | | |
| Accounts payable (including accounts payable of the consolidated VIEs without recourse to LightInTheBox Holding Co., Ltd. of $23 and $22 as of December 31, 2014 and December 31, 2015, respectively) | 25,236 | 29,351 |
| Advance from customers (including advance from customers of the consolidated VIEs without recourse to LightInTheBox Holding Co., Ltd. of nil and nil as of December 31, 2014 and December 31, 2015, respectively) | 10,979 | 8,282 |
| Accrued expenses and other current liabilities (including accrued expenses and other current liabilities of the consolidated VIEs without recourse to LightInTheBox Holding Co., Ltd. of $2,251and $1,760 as of December 31, 2014 and December 31, 2015, respectively) | 25,069 | 19,983 |
| Total current liabilities | 61,284 | 57,616 |
| TOTAL LIABILITIES | 61,284 | 57,616 |

| | December 31, | |
|---|---|---|
| | 2014 | 2015 |
| | $ | $ |
| EQUITY (DEFICIT) | | |
| Ordinary shares ($0.000067 par value; 750,000,000 shares authorized; 100,354,801 and 101,847,447 shares issued as of December 31, 2014 and December 31, 2015 respectively; 96,617,349 and 94,456,773 shares outstanding as of December 31, 2014 and December 31, 2015 respectively) | 7 | 7 |
| Additional paid-in capital | 155,872 | 159,190 |
| Treasury shares, at cost (3,737,452 and 7,390,674 shares as of December 31, 2014, and December 31, 2015 respectively) | (10,957) | (19,996) |
| Accumulated deficit | (101,608) | (141,015) |
| Accumulated other comprehensive loss | (131) | (309) |
| TOTAL EQUITY (DEFICIT) | 43,183 | (2,123) |
| TOTAL LIABILITIES AND EQUITY | 104,467 | 55,493 |

The accompanying notes are an integral part of these consolidated financial statements.

**Consolidated Statements of Operations**

*(U.S. dollars in thousands, except share data and per share data, or otherwise noted)*

| | Years ended December 31, | | |
|---|---|---|---|
| | 2013 | 2014 | 2015 |
| | $ | $ | $ |
| Net revenues | 292,417 | 382,407 | 323,763 |
| Cost of goods sold | 165,267 | 237,095 | 207,354 |
| Gross profit | 127,150 | 145,312 | 116,409 |
| Operating expenses: | | | |
| Fulfillment | 15,963 | 23,926 | 22,419 |
| Selling and marketing | 84,245 | 105,186 | 91,614 |
| General and administrative | 31,929 | 46,916 | 41,535 |
| Total operating expenses | 132,137 | 176,028 | 155,568 |
| Loss from operations | (4,987) | (30,716) | (39,159) |
| Exchange loss on offshore bank accounts | — | (1,556) | (938) |
| Interest income | 237 | 2,355 | 773 |
| Total other income (loss) | 237 | 799 | (165) |
| Loss before income taxes | (4,750) | (29,917) | (39,324) |
| Income taxes expenses | (69) | (70) | (49) |
| Loss from equity method investment | — | — | (34) |
| Net loss | (4,819) | (29,987) | (39,407) |
| Accretion for Series C convertible redeemable preferred shares | (1,621) | — | — |
| Net loss attributable to ordinary shareholders | (6,440) | (29,987) | (39,407) |
| Net loss per ordinary share-basic | (0.09) | (0.30) | (0.41) |
| Net loss per ordinary share-diluted | (0.09) | (0.30) | (0.41) |

The accompanying notes are an integral part of these consolidated financial statements.

**Consolidated Statements of Comprehensive Loss**

*(U.S. dollars in thousands, or otherwise noted)*

| | Years ended December 31, | | |
|---|---|---|---|
| | **2013** | **2014** | **2015** |
| | *$* | *$* | *$* |
| Net loss | (4,819) | (29,987) | (39,407) |
| Other comprehensive loss, net of tax: | | | |
| Foreign currency translation adjustment, net of tax of nil | (89) | (12) | (178) |
| Total comprehensive loss | (4,908) | (29,999) | (39,585) |

The accompanying notes are an integral part of these consolidated financial statements.

## Consolidated Statements of Changes in Equity (Deficit)

*(U.S. dollars in thousands, except share data and per share data, or otherwise noted)*

| | Series A Convertible Preferred Shares | | Series B Convertible Preferred Shares | | Ordinary Shares | | Accumulated Paid-in Capital | Treasury stock, at cost | Accumulated Other Comprehensive Income (Loss) | Accumulated Deficit | Total (Deficit) Equity |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | Shares | Amount | | | | | |
| | | $ | | $ | | $ | $ | $ | $ | $ | $ |
| Balance at January1,2013 | 15,000,000 | 5,000 | 17,522,725 | 11,270 | 36,680,558 | 2 | 10,459 | – | (30) | (65,181) | (38,480) |
| Conversion of preferred shares upon IPO | (15,000,000) | (5,000) | (17,522,725) | (11,270) | 42,174,290 | 3 | 59,359 | – | – | – | 43,092 |
| Conversion of convertible notes upon IPO | – | – | – | – | 2,224,610 | – | 8,000 | – | – | – | 8,000 |
| Issuance of common shares upon IPO (net of offering costs of $9,883) | – | – | – | – | 16,984,736 | 2 | 70,795 | – | – | – | 70,797 |
| Issuance of ordinary shares upon vesting of nonvested shares | – | – | – | – | 767,397 | – | – | – | – | – | – |
| Exercise of share options | – | – | – | – | 363,400 | – | 193 | – | – | – | 193 |
| Share-based compensation | – | – | – | – | – | – | 4,318 | – | – | – | 4,318 |
| Accretion for Series C convertible redeemable preferred shares | – | – | – | – | – | – | – | – | – | (1,621) | (1,621) |
| Net loss | – | – | – | – | – | – | – | – | – | (4,819) | (4,819) |
| Foreign currency translation adjustment | – | – | | – | – | – | – | – | (89) | – | (89) |
| Balance at December 31, 2013 | – | – | – | – | 99,194,991 | 7 | 153,124 | – | (119) | (71,621) | 81,391 |
| Issuance of ordinary shares upon vesting of nonvested shares | – | – | – | – | 611,010 | – | – | – | – | – | – |
| Exercise of share options | | | | | 548,800 | – | 230 | – | – | – | 230 |
| Share-based compensation | – | – | – | – | – | – | 2,518 | – | – | – | 2,518 |
| Repurchase of ordinary shares | – | – | – | – | (3,737,452) | – | – | (10,957) | – | – | (10,957) |
| Net loss | – | – | – | – | – | – | – | – | – | (29,987) | (29,987) |
| Foreign currency translation adjustment | – | – | – | – | – | – | – | – | (12) | – | (12) |
| Balance at December 31, 2014 | – | – | – | – | 96,617,349 | 7 | 155,872 | (10,957) | (131) | (101,608) | 43,183 |
| Issuance of ordinary shares upon vesting of nonvested shares | – | – | – | – | 1,316,696 | – | – | – | – | – | – |
| Exercise of share options | | | | | 175,950 | – | 122 | – | – | – | 122 |
| Share-based compensation | – | – | – | – | – | – | 3,196 | | – | – | 3,196 |
| Repurchase of ordinary shares | – | – | – | – | (3,653,222) | – | – | (9,039) | – | – | (9,039) |
| Net loss | – | – | – | – | – | – | – | – | – | (39,407) | (39,407) |
| Foreign currency translation adjustment | – | – | – | – | – | – | – | – | (178) | – | (178) |
| Balance at December 31, 2015 | – | – | – | – | 94,456,773 | 7 | 159,190 | (19,996) | (309) | (141,015) | (2,123) |

The accompanying notes are an integral part of these consolidated financial statements.

**Consolidated Statements Of Cash Flows**

*(U.S. dollars in thousands, or otherwise noted)*

| | Years ended December 31 | | |
|---|---|---|---|
| | **2013** | **2014** | **2015** |
| | *$* | *$* | *$* |
| Net loss | (4,819) | (29,987) | (39,407) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: | | | |
| Depreciation and amortization | 1,361 | 1,855 | 2,135 |
| Share-based compensation | 4,318 | 2,518 | 3,196 |
| Exchange loss on offshore bank accounts | — | 1,556 | 938 |
| Loss from equity method investment | — | — | 34 |
| Inventory write down | (420) | 1,206 | 1,890 |
| Amortization of debt discount | 956 | — | — |
| Interest on convertible notes | 413 | — | — |
| Changes in operating assets and liabilities: | | | |
| Accounts receivable | 12 | (447) | (246) |
| Inventories | (864) | (4,000) | (3,326) |
| Prepaid expenses and other current assets | (1,148) | 3,639 | 106 |
| Long-term rental deposit | (337) | (79) | 33 |
| Accounts payable | 9,508 | 6,567 | 4,117 |
| Advance from customers | 3,130 | 818 | (2,697) |
| Accrued expenses and other current liabilities | 3,042 | 9,465 | (4,674) |
| Net cash provided by (used in) operating activities | 15,152 | (6,889) | (37,901) |
| Cash flows from investing activities | | | |
| Purchase of property and equipment | (2,451) | (2,576) | (769) |
| Maturity of term deposit | — | 157,519 | 43,054 |
| Purchase of term deposit | (79,958) | (84,855) | (37,708) |
| (Deposit) Withdraw in restricted cash | (143) | (907) | 661 |
| Payment for business acquisition | (1,000) | — | — |
| Payment for long term investment | — | — | (2,100) |
| Net cash (used in) provided by investing activities | (83,552) | 69,181 | 3,138 |

| | Years ended December 31 | | |
|---|---|---|---|
| | 2013 | 2014 | 2015 |
| | $ | $ | $ |
| Cash flows from financing activities | | | |
| Proceeds from exercise of share options | 193 | 230 | 122 |
| Proceeds from initial public offering | 75,030 | — | — |
| Repurchase of ordinary shares | — | (10,650) | (9,346) |
| Payment of professional fees related to initial public offering | (3,127) | — | — |
| Net cash provided by (used in) financing activities | 72,096 | (10,420) | (9,224) |
| Net increase (decrease) in cash and cash equivalents | 3,696 | 51,872 | (43,987) |
| Effect of exchange rate changes on cash and cash equivalents | 77 | (259) | (470) |
| Cash and cash equivalents at beginning of year | 19,972 | 23,745 | 75,358 |
| Cash and cash equivalents at end of year | 23,745 | 75,358 | 30,901 |
| Supplemental cash flow information: | | | |
| Income taxes paid | (69) | (70) | (49) |
| Interest paid | (1,157) | — | — |

The accompanying notes are an integral part of these consolidated financial statements.

## Notes to the Consolidated Financial Statements

*For the Years Ended December 31, 2013, 2014 and 2015*

*(U.S. dollars in thousands, except share data and per share data, or otherwise noted)*

### 1. ORGANIZATION AND PRINCIPAL ACTIVITIES

LightInTheBox Holding Co., Ltd. (the "Company"), incorporated in the Cayman Islands in March 2008 by five founding shareholders, together with its consolidated subsidiaries and variable interest entities ("VIEs") (collectively referred to the "Group"), is primarily involved in online retailing to sell and deliver products to consumers around the world.

As of December 31, 2015, details of the Company's subsidiaries and VIEs are as follows:

| | Later of acquisition/ Incorporation | Place of incorporation | Percentage of legal ownership | Principal activities |
|---|---|---|---|---|
| *Subsidiaries* | | | | |
| Light In The Box Limited ("Light In The Box") | June 13,2007 | Hong Kong | 100% | Online retail |
| Lanting International Holding Limited ("Lanting International") | December 19,2013 | Hong Kong | 100% | Investment holding |
| LightInTheBox International Logistic Co., Ltd. ("LightInTheBox Logistic") | December 3,2010 | Hong Kong | 100% | Logistic |
| LITB, Inc. | December 18,2013 | United States | 100% | Marketing and software development and technology support |
| Lightinthebox Trading (Shenzhen) Co., Ltd. ("Lanting Jishi") | October 21,2008 | People's Republic of China | 100% | Online retail |
| Light In The Box (Suzhou) Trading Co., Limited ("Lanting Suzhou") | December 2,2013 | People's Republic of China | 100% | Online retail |
| Light In The Box (Chengdu) Technology Co., Limited | November 11, 2014 | People's Republic of China | 100% | Software development and information technology support |
| LightInTheBox (UK) Limited | May 26,2009 | United Kingdom | 100% | Inactive |
| LITB Netherlands B.V. | September 22, 2014 | Netherlands | 100% | Marketing |
| LITB Poland Sp. zo.o. | January 23, 2015 | Poland | 100% | Inactive |
| *VIEs* | | | | |
| Shenzhen Lanting Huitong Technologies Co., Ltd. ("Lanting Huitong") | June 24,2008 | People's Republic of China | Consolidated VIE | Software development and information technology support |
| Beijing Lanting Gaochuang Technologies Co., Ltd. ("Lanting Gaochuang") | December 6,2011 | People's Republic of China | Consolidated VIE | Software development and information technology support |
| *VIE's (Lanting Huitong's) wholly owned subsidiary* | | | | |
| Shanghai Ouku Network Technologies Co., Ltd. ("Shanghai Ouku") | August 24,2010 | People's Republic of China | VIE's subsidiary | Online retail |

**History of the Group and corporate reorganization**

The Group commenced its operation in June 2007, with the establishment of Light In The Box in June 2007 in Hong Kong by the same five founding shareholders of the Company. Light In The Box subsequently became the Company's subsidiary through a share for share exchange in April 2008 which has been accounted for in a manner akin to a pooling of interest as if the Company had been in existence and owned Light In The Box since June 2007.

Lanting Jishi was established in October 2008 in the People's Republic of China (the "PRC") as a wholly owned subsidiary of Light In The Box.

**The VIE arrangements**

The PRC regulations currently limit direct foreign ownership of business entities providing value-added telecommunications services, advertising services and Internet services in the PRC where certain licenses are required for the provision of such services. To comply with these PRC regulations, the Group currently conducts certain aspects of its business in the PRC through Lanting Huitong and Lanting Gaochuang, both of which are VIEs.

Lanting Huitong was established by the shareholders of the Company in June 2008 in the PRC. Through the contractual arrangements (as described below) among Lanting Jishi, Lanting Huitong and the respective shareholders of Lanting Huitong, Lanting Huitong became the Group's VIE.

In order to obtain the benefit granted to domestic enterprises that are held by Chinese nationals who have previously studied overseas, the Chief Executive Officer ("CEO") and Lanting Huitong established Lanting Gaochuang in December 2011, each holding 51% and 49% of Lanting Gaochuang, respectively, in the China Beijing Wangjing Overseas Students Pioneer Park.

Through a series of contractual arrangements (as described below) among Lanting Jishi, Lanting Gaochuang and the respective shareholders of Lanting Gaochuang, Lanting Gaochuang became the Group's VIE.

**Agreements that provide Lanting Jishi effective control over Lanting Huitong and Lanting Gaochuang (collectively, the "VIEs")**

*Powers of Attorney:* Each shareholder of the VIEs has executed a power of attorney appointing Lanting Jishi or its designee to be his or her attorney and irrevocably authorizing them to vote on his or her behalf on all of the matters concerning the VIEs that may require shareholders' approval. The powers of attorney will be valid as long as the shareholders remain as shareholders of the VIEs.

*Equity disposal agreement:* The agreements granted Lanting Jishi or its designated party exclusive options to purchase, when and to the extent permitted under PRC law, all or part of the equity interests in the VIEs. The exercise price for the options to purchase all or part of the equity interests will be the minimum amount of consideration permissible under the then applicable PRC law. The agreement will be valid until Lanting Jishi or its designated party purchases all the shares from shareholders of the VIEs. The equity disposal agreement will be valid until the liquidation of the VIEs, unless terminated earlier at Lanting Jishi's sole discretion.

*Spousal consent letters:* Pursuant to spousal consent letters, the spouses of certain shareholders of Lanting Huitong acknowledged that the equity interests of Lanting Huitong held by and registered in the name of his/her spouse will be disposed of pursuant to the equity disposal and share pledge agreements. These spouses understand that such equity interests are held by their respective spouse on behalf of Lanting Jishi, and they will not take any action to interfere with the disposition of such equity

interests, including, without limitation, claiming that such equity interests constitute communal property of marriage. The spousal consent letters will be valid until the liquidation of Lanting Huitong, unless terminated earlier at Lanting Jishi's sole discretion.

*Loan Agreement:* Under the loan agreement entered into in December 2011 between Lanting Jishi and the CEO, Lanting Jishi extended a loan in the amount of RMB255,000 ($40,492) to the CEO to be contributed as 51% of the registered capital of Lanting Gaochuang. Under this agreement, the CEO agrees that without prior written consent from Lanting Jishi, Lanting Gaochuang may not enter into any transaction that could materially affect its assets, liabilities, interests or operations, and there will be no earnings distribution in any form by Lanting Gaochuang before such loan has been repaid. This loan can only be repaid by transferring all of the CEO's equity interest in Lanting Gaochuang to Lanting Jishi or a third party designated by Lanting Jishi, and submitting all proceeds from such transaction to Lanting Jishi. The loan agreement has a term of ten years and will be extended automatically, unless indicated otherwise by Lanting Jishi in writing three months prior to the contract expiration date.

**Agreements that transfer economic benefits to Lanting Jishi**

*Business operation agreements:* The shareholders of the VIEs and the VIEs agreed that the VIEs may not enter into any transaction that could materially affect the assets, liabilities, interests or operations of the VIEs, without prior written consent from Lanting Jishi or other party designated by Lanting Jishi. In addition, directors, supervisors, chairman, general managers, financial controllers or other senior managers of the VIEs must be Lanting Jishi's nominees. Lanting Jishi is entitled to any dividend declared by the VIEs. The business operation agreement will be valid until the liquidation of the VIEs, unless terminated earlier at Lanting Jishi's sole discretion.

*Exclusive technical support and consulting service agreements:* Lanting Jishi agreed to provide the VIEs with technology support and consulting services. The VIEs agreed to pay a service fee annually equal to substantially all of the net income of the VIEs. The exclusive technical support and consulting service agreement will be valid until the liquidation of the VIEs, unless terminated earlier at Lanting Jishi's sole discretion.

*Share pledge agreement:* The shareholders of the VIEs pledged all of their respective equity interests in favor of Lanting Jishi to secure the obligations of the VIEs, and the shareholders under the VIE agreements, including the business operation agreements, and the exclusive technical support and consulting service agreements described above. If the VIEs or any of the shareholders of the VIEs breaches any of their respective contractual obligations under these agreements, Lanting Jishi, as pledgee, will be entitled to certain rights, including the right to sell the pledged equity interests. The shareholders of the VIEs agreed not to transfer, sell, pledge, dispose of or otherwise create any new encumbrance on their respective equity interests in the VIEs, without Lanting Jishi's prior written consent. Unless terminated at Lanting Jishi's sole discretion, each share pledge agreement will be valid till the completion of all the contractual obligations of the VIEs, or any of the shareholders of the VIEs under the various agreements, including the business operation agreements, the technical support and consulting service agreements and equity disposal agreements.

Since the Company, through Lanting Jishi, its wholly owned subsidiary, has (1) the power to direct the activities of Lanting Huitong and Lanting Gaochuang that most significantly affect their economic performance and (2) the right to receive the benefits from them, the Company is the primary beneficiary of both entities and has consolidated them as VIEs since their respective inceptions.

**Risks in relation to VIE structure**

The Group believes that Lanting Jishi's contractual arrangements with the VIEs are in compliance with the PRC law and are legally enforceable. The shareholders of the VIEs are also shareholders of the Company and therefore have no current interest in seeking to act contrary to the contractual arrangements. However, uncertainties in the PRC legal system could limit the Group's ability to enforce these contractual arrangements and if the shareholders of the VIEs were to reduce their interest in the Company, their interests may diverge from that of the Company and that may potentially increase the risk that they would seek to act contrary to the contractual terms, for example by influencing the VIEs not to pay the service fees when required to do so. The Company's ability to control the VIEs also depends on the power of attorney Lanting Jishi has to vote on all matters requiring shareholder approval in the VIEs. As noted above, the Company believes this power of attorney is legally enforceable but may not be as effective as direct equity ownership.

In addition, if the legal structure and contractual arrangements were found to be in violation of any existing PRC laws and regulations, the PRC government could:

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

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

The following consolidated financial information of the Group's VIEs was included in the accompanying consolidated financial statements as of and for the years ended, after elimination of intercompany balances and transactions within the Group:

| | **As of December 31, 2014** | **As of December 31, 2015** |
|---|---|---|
| | *$* | *$* |
| Total assets | 2,988 | 227 |
| Total liabilities | 2,274 | 1,782 |

| | **Year ended December 31,** | | |
|---|---|---|---|
| | **2013** | **2014** | **2015** |
| | *$* | *$* | *$* |
| Net revenues | 300 | 58 | 5 |
| Net loss | (179) | (725) | (128) |

| | **Year ended December 31,** | | |
|---|---|---|---|
| | **2013** | **2014** | **2015** |
| | *$* | *$* | *$* |
| Net cash provided by (used in) operating activities | 647 | 769 | (247) |
| Net cash (used in) provided by investing activities | (798) | (895) | 44 |
| Net cash provided by financing activities | — | — | — |

As of December 31, 2015, there was no pledge or collateralization of the consolidated VIEs' assets. And none of the consolidated VIEs' assets can only be used to settle the VIEs' obligations.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of presentation**

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

**Basis of consolidation**

The consolidated financial statements include the financial statements of the Group, its subsidiaries and its VIEs. All inter-company transactions and balances are eliminated upon consolidation.

**Use of estimates**

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the reported amount of revenues and expenses in the financial statements and accompanying notes. Actual results may differ from these estimates. The Group bases its estimates on historical experience and various other factors believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Significant accounting estimates reflected in the Group's financial statements include revenue recognition, inventory valuation, impairment of goodwill and intangible assets, share-based compensation and income taxes.

**Cash and cash equivalents**

Cash and cash equivalents consist of cash on hand, demand deposits with financial institutions and term deposits with an original maturity of three months or less.

**Term deposit**

Term deposit with an original maturity of greater than three months and less than one year is classified as held-to-maturity investments and carried at amortized cost. The term deposits mature within one year and are subject to penalty for early withdrawal before their maturity.

**Restricted cash**

Restricted cash consists of cash which is held under the Group's name in an escrow account as deposits withheld by third party payment processing agencies and the deposits fluctuate with the volume of payment processed.

**Accounts receivable**

Accounts receivable represents cash collected by the delivery service providers on behalf of the Group, as a result of completed sales transactions in the PRC under cash-on-delivery terms, and has not been remitted back to the Group. As of December 31, 2014 and 2015, there was no allowance for doubtful accounts due to the nature of the receivables which is cash collected from customers and in-transit to the Group.

**Inventories**

Inventories are accounted for using the first-in-first-out method, and are valued at the lower of cost or market value. Adjustments are recorded to write down the cost of inventory to the estimated market value due to slow-moving merchandise and broken assortments, which is dependent upon factors such as historical trends with similar merchandise, inventory aging, and historical and forecasted consumer demand. Write downs are recorded in cost of goods sold in the consolidated statements of operations.

**Property and equipment, net**

Property and equipment, net is stated at cost less accumulated depreciation and amortization. Depreciation and amortization are calculated on a straight-line basis over the following estimated useful lives:

| | **Useful lives** |
|---|---|
| Leasehold improvements | Lesser of the lease term or estimated useful life of the assets |
| Furniture, fixtures and office equipment | 5 years |
| Software and IT equipment | 3 years |

**Acquired intangible assets, net**

Intangible assets, other than goodwill, resulting from the acquisitions of entities accounted for using the acquisition method of accounting are estimated by management based on the fair value of assets acquired.

Identifiable intangible assets are carried at cost less accumulated amortization. Amortization of technology and members are computed using the straight-line method over the estimated useful lives.

| | Useful lives |
|---|---|
| Domain name/Tradename | Indefinite life |
| Technology | 3 Years |
| Members | 4 Years |

**Long-term investment**

Investment in an entity where the Group can exercise significant influence, but not control, is accounted for using the equity method. Whether or not the Group can exercise significant influence with respect to an equity investee depends on an evaluation of several factors including, among others, the Group's representation on the investee's board of directors and ownership level, which is generally a 20% to 50% interest in the voting securities of the investee. Under the equity method, the investment is initially recorded at cost and adjusted for the Group's share of undistributed earnings or losses of the investee.

The management regularly evaluates the impairment of the equity investment based on performance and the financial position of the investee as well as other evidence of market value. Such evaluation includes, but is not limited to, reviewing the investee's cash position, recent financings, projected and historical financial performance, cash flow forecasts and financing needs. An impairment charge is recorded when the carrying amount of the investment exceeds its fair value and this condition is determined to be other-than-temporary.

**Impairment of long-lived assets and intangible assets with definite life**

Long-lived assets, such as property and equipment and definite-lived intangible assets, are stated at cost less accumulated depreciation or amortization.

The Group evaluates the recoverability of long-lived assets, including identifiable intangible assets, with determinable useful lives, whenever events or changes in circumstances indicate that an intangible asset's carrying amount may not be recoverable. The Group measures the carrying amount of long-lived asset against the estimated undiscounted future cash flows associated with it. Impairment exists when the sum of the expected future net cash flows is less than the carrying value of the asset being evaluated. Impairment loss is calculated as the amount by which the carrying value of the asset exceeds its fair value. Fair value is estimated based on various valuation techniques, including the discounted value of estimated future cash flows. The evaluation of asset impairment requires the Group to make assumptions about future cash flows over the life of the asset being evaluated. These assumptions require significant judgment and actual results may differ from assumed and estimated amounts.

**Impairment of Goodwill and Indefinite-lived intangible assets**

Goodwill and intangible assets deemed to have indefinite useful lives are not amortized, but tested for impairment annually or more frequently if event and circumstances indicate that they might be impaired.

Goodwill represents the excess of the purchase price over the fair value of identifiable net assets acquired in business combinations. The Group performs a two-step goodwill impairment test. The first step compares the fair values of each reporting unit to its carrying amount, including goodwill. If the fair value of a reporting unit exceeds its carrying amount, goodwill is not considered impaired and the second step will not be required. If the carrying amount of a reporting unit exceeds its fair value, the second step compares the implied fair value of the affected reporting unit's goodwill to the carrying value of that goodwill. The implied fair value of goodwill is determined in a manner similar to accounting for a business combination with the allocation of the assessed fair value determined in the first step to the assets and liabilities of the reporting unit. The excess of the fair value of the reporting unit over the amounts assigned to the assets and liabilities is the implied fair value of goodwill. This allocation process is only performed for purposes of evaluating goodwill impairment and does not result in an entry to adjust the value of any assets or liabilities. An impairment loss is recognized for any excess in the carrying value of goodwill over the implied fair value of goodwill. In estimating the fair value of each reporting unit the Group estimates the future cash flows of each reporting unit, the Group has taken into consideration the overall and industry economic conditions and trends, market risk of the Group and historical information.

An intangible asset that is not subject to amortization is tested for impairment at least annually or if events or changes in circumstances indicate that the asset might be impaired. Such impairment test compares the fair values of assets with their carrying value amounts and an impairment loss is recognized if and when the carrying amounts exceed the fair values. The estimates of fair values of intangible assets not subject to amortization are determined using various discounted cash flow valuation methodologies. Significant assumptions are inherent in this process, including estimates of discount rates.

**Business combinations**

The assets acquired, the liabilities assumed, and any noncontrolling interest of the acquiree at the acquisition date, if any, are measured at their fair values as of that date. Goodwill is recognized and measured as the excess of the total consideration transferred plus the fair value of any noncontrolling interest of the acquiree, if any, at the acquisition date over the fair values of the identifiable net assets acquired. Acquisition costs are expensed when incurred. Consideration transferred in a business acquisition is measured at the fair value as of the date of acquisition. For shares issued in a business combination, if any, the Group estimates the fair value as of the date of acquisition.

**Treasury stock**

Treasury stock represents shares of the Company's stock that have been issued, repurchased by the Company, and that have not been retired or canceled. These shares have no voting rights and are not entitled to receive dividends and excluded from the weighted average outstanding shares in calculation of net income per share. Treasury stock is recorded at cost.

**Revenue recognition**

Revenue is stated net of value added tax ("VAT") and return allowances.

The Group recognizes revenue from the sale of apparel and other general merchandise through its websites and other online platforms.

The Group recognizes revenue when the following four revenue recognition criteria are met:

(i) persuasive evidence of an arrangement exists, (ii) delivery has occurred, (iii) the selling price is fixed or determinable, and (iv) collectability is reasonably assured.

The Group defers the recognition of revenue and the related product costs for shipments that are in-transit to the customer. Payments received in advance of delivery are classified as advances from customers. The Group recognizes the revenue at the time the end customers receive the products even for international shipment. Amounts collected by delivery service providers but not remitted to the Group are classified as accounts receivable on the consolidated balance sheets.

Certain employees of the Group register in supplemental online outlets under their own name as these websites require registration using identity cards of individuals to sell the Group's product on behalf of the Group. The Group has contractual arrangements with these employees which require them to transfer customers' payments received to the Group for the sale of the products. The Group evaluates the sales transactions performed by these employees on behalf of the Group to determine whether to recognize the revenues on a gross or net basis. The determination is based upon an assessment as to whether the Group acts as a principal or agent when selling the products. All of the revenues involving employees performing sales transactions on the supplemental online outlets on behalf of the Group are currently accounted for on a gross basis since the Group is the primary obligor, has general and physical inventory risk, latitude in establishing prices, discretion in supplier selection and credit risks.

In arrangements whereby certain suppliers place the products at the Group's premises, the risk and rewards of ownership of the products passed to the Group upon confirmation of orders by the Group's customers. All of the revenues involving these arrangement are accounted for on a gross basis since the Group is the primary obligor, has physical inventory risk, latitude in establishing prices, discretion in supplier selection and credit risks.

The Group periodically provides incentive offers to its customers to encourage purchases. Current discount offers, when accepted by its customers, are treated as a reduction to the purchase price of the related transaction and are included as a net amount in revenue. The Group also provides discount reward, which may only be used in the future, to customers who have made a current purchase. As the right of receiving future discount does not represent a significant and incremental discount to the customer, the discount is treated as a reduction of revenue when the future transaction takes place.

The Group established a membership program whereby a registered member earns certain points for visiting one of the Group's websites. Points could only be redeemed in connection with a future purchase. Such points, when redeemed, were charged as costs of sales at the time of future purchase. Since the points were earned not based on past sales transactions, no accrual was made at the time when earned by the registered members.

Promotional free products, which cannot be redeemed for cash are normally shipped together with current qualified sales. Cost of these promotional items or free products are recorded as cost of sales when the revenue of the current qualified sales is recognized.

The Group allows customers to return goods within a period of time subsequent to the delivery of the goods purchased. The Group changed its sales return policy in 2014 to offer returns for items from 7 days to 30 days of receipt of shipment. The Group estimates return allowance based on historical experience. The estimation of return allowances is adjusted to the extent that actual returns differ, or are expected to differ. Changes in the estimated return allowance are recognized through a cumulative catch-up adjustment in the period of change and will impact the amount of net revenues in that period.

Outbound shipping charges to customers are included as a part of the revenues. Outbound shipping-related costs are included in the cost of goods sold. Shipping costs incurred for sales of products and recognized as cost of goods sold were $63,917, $94,509 and $80,915 for the years ended December 31, 2013, 2014 and 2015 respectively.

VAT on sales is calculated at 17% on revenue from sale of products in the PRC and paid after deducting input-VAT on purchases. The net VAT balance between input-VAT and output-VAT is reflected in the consolidated financial statement as prepaid expenses and other current assets or accrued expenses and other current liabilities.

**Cost of goods sold**

Cost of goods sold primarily consists of the purchase price of consumer products sold by the Group on its websites, inbound and outbound shipping charges, packaging supplies and inventory write-down. Shipping charges to receive products from its suppliers are included in inventory cost, and recognized as cost of sales upon sale of products to its customers.

**Fulfillment**

Fulfillment costs represent those costs incurred in operating and staffing the Group's fulfillment and customer service centers, including costs attributable to buying, receiving, inspecting, and warehousing inventories; picking, packaging, and preparing customer orders for shipment; payment processing and related transaction costs.

**Selling and marketing**

Selling and marketing expenses consist primarily of search engine marketing and advertising, affiliate market program expenditure, public relations expenditures; and payroll and related expenses for personnel engaged in selling, marketing and business development. The Group pays to use certain relevant key words relating to its business on major search engines and the fee is on a "cost-per-click" basis. The Group also pays commissions to participants in its affiliate program when customer referrals result in product sales, and the Group classifies such costs as selling and marketing expenses in the consolidated statements of operations. Advertising includes fees paid to on-line advertisers who assist the Group to advertise at targeted websites. Such fees are paid at fixed rate or calculated based on volume directed to the Group's website.

**General and administrative**

General and administrative expenses consist of payroll and related expenses for employees involved in general corporate functions such as accounting, finance, tax, legal, and human resources; costs associated with the use by these functions of facilities and equipment, such as depreciation expense and rent; professional fees and other general corporate costs. Also included in general and administrative expenses are payroll and related expenses for employees involved in product research and development, and systems support, as well as server charges and costs associated with telecommunications.

General and administrative expenses also include credit losses relating to fraudulent credit card activities which resulted in chargebacks from the payment processing agencies. The Group estimates chargebacks based on historical experience. The estimation of chargebacks is adjusted to the extent that actual chargebacks differ, or are expected to differ. The chargeback incurred for the years ended December 31, 2013, 2014 and 2015 are $1,036, $748 and $1,227.

**Fair value**

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

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

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

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

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

**Financial instruments**

Financial instruments of the Group primarily consist of cash and cash equivalents, term deposit, restricted cash, receivable from processing agencies, accounts payable. The carrying values of cash, term deposit, restricted cash, accounts receivable from processing agencies and accounts payable approximate their fair values due to short-term maturities.

**Foreign currency translation**

The functional currency of the Company, Light In The Box, Lanting International, LightInTheBox Logistic, LITB, Inc., LightInTheBox (UK) Limited, and LITB Poland Sp. zo.o.is the United States dollar ("U.S. dollar") and LITB Netherlands B.V. is the Euro. The financial records of the Group's subsidiaries and VIEs located in the PRC are maintained in their local currencies, the Renminbi ("RMB"), which are also the functional currencies of these entities.

Monetary assets and liabilities denominated in currencies other than the functional currency are translated into the functional currency at the rates of exchange ruling at the balance sheet date. Transactions in currencies other than the functional currency during the year are converted into functional currency at the applicable rates of exchange prevailing when the transactions occurred. Transaction gains and losses are recognized in the consolidated statements of operations.

The Group's entities with functional currency of RMB and Euro, translate their operating results and financial position into the U.S. dollar, the Group's reporting currency. Assets and liabilities are translated using the exchange rates in effect on the balance sheet date. Revenues, expenses, gains and losses are translated using the average rate for the year. Translation adjustments are reported as cumulative translation adjustments and are shown as a separate component of other comprehensive loss.

**Income taxes**

Deferred income taxes are provided using the asset and liability method. Under this method, deferred income taxes are recognized for tax credits and net operating losses available for carry forwards and significant temporary differences. Deferred tax assets and liabilities are classified as current or non-current based upon the classification of the related asset or liability in the financial statements or the expected timing of their reversal if they do not relate to a specific asset or liability. A valuation allowance is provided to reduce the amount of deferred tax assets if it is considered more likely than not that some portion of, or all of the deferred tax assets will not be realized. Current income taxes are provided for in accordance with the laws and regulations applicable to the Group as enacted by the relevant tax authorities. The impact of an uncertain income tax position on the income tax return must be recognized at the largest amount that is more-likely-than not to be sustained upon audit by the relevant tax authority. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained. Interest and penalties on income taxes will be classified as a component of the provisions for income taxes. The Group did not recognize any income tax due to uncertain tax position or incur any interest and penalties related to potential underpaid income tax expenses for the years ended December 31, 2013, 2014 or 2015, respectively.

**Comprehensive loss**

Comprehensive loss includes net loss and foreign currency translation adjustments and is reported in the consolidated statements of comprehensive loss.

**Share-based compensation**

Share-based payment transactions with employees, such as share options are measured based on the grant date fair value of the equity instrument. The Group has elected to recognize compensation expense using the straight-line method for all employee equity awards granted with graded vesting provided that the amount of compensation cost recognized at any date is at least equal to the portion of the grant-date value of the options that are vested at that date, over the requisite service period of the award, which is generally the vesting period of the award. The estimate of forfeitures will be adjusted over the requisite service period to the extent that actual forfeitures differ, or are expected to differ, from such estimates. Changes in estimated forfeitures will be recognized through a cumulative catch-up adjustment in the period of change and will also impact the amount of share-based compensation expense to be recognized in future periods.

Changes in the terms or conditions of share options are accounted as a modification under which the Group calculate whether there is any excess of the fair value of the modified option over the fair value of the original option immediately before its terms are modified, measured based on the share price and other pertinent factors at the modification date. For vested options, the Group recognizes incremental compensation cost in the period of the modification occurred and for unvested options, the Group recognizes, over the remaining requisite service period, the sum of the incremental compensation cost and the remaining unrecognized compensation cost for the original award on the modification date.

**Operating leases**

Leases where the rewards and risks of ownership of assets primarily remain with the lessor are accounted for as operating leases. Some of operating lease agreements of the Group contain provisions for future rent increases, rent free periods, or periods in which rent payments are reduced (abated). The total amount of rental payments due over the lease term is being charged to rent expense on the straight-line method over the term of the lease. The difference between rent expense recorded and the amount paid is credited or charged to other accrued expenses, which is included in "Accrued expenses and other current liabilities" in the accompanying consolidated balance sheets.

**Loss per share**

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

The Group's Series A convertible preferred shares, Series B convertible preferred shares and Series C convertible redeemable preferred shares are participating securities as the preferred shares participate in undistributed earnings on an as-if-converted basis. Nonvested shares are also participating securities as they enjoy identical dividend rights as ordinary shares. Accordingly, the Group uses the two-class method whereby undistributed net income is allocated on a pro rata basis to each participating share to the extent that each class may share in income for the period. Undistributed net loss is not allocated to preferred shares because they are not contractually obligated to participate in the loss allocated to the ordinary and nonvested shares. All convertible preferred shares were converted to ordinary shares upon Initial Public Offerings ("IPO") in 2013.

Diluted loss per ordinary share reflects the potential dilution that could occur if securities were exercised or converted into ordinary shares. The Group had convertible preferred shares, convertible redeemable preferred shares, stock options and nonvested shares, which could potentially dilute basic earnings per share in the future. To calculate the number of shares for diluted income per share, the effect of the convertible preferred shares and convertible redeemable preferred shares is computed using the as-if-converted method; and the effect of the stock options and nonvested shares is computed using the treasury stock method.

**Significant risks and uncertainties**

The Group participates in an industry with rapid changes in regulations, customer demand and competition and believes that changes in any of the following areas could have a material adverse effect on the Group's future financial position, results of operations, or cash flows: advances and trends in e-commerce industry; changes in certain supplier and vendor relationships; regulatory or other PRC related factors; and risks associated with the Group's ability to keep and increase the market coverage.

**Concentration of credit risk**

Financial instruments that potentially expose the Group to concentrations of credit risk consist primarily of cash and cash equivalents, accounts receivable and advances to suppliers. The Group places its cash and cash equivalents with financial institutions located in the PRC and Hong Kong, United States and Netherland. Accounts receivable primarily comprise amounts receivable from product delivery service providers. These amounts are collected from customers by the service providers upon product delivery. With respect to advances to product suppliers, the Group performs ongoing credit evaluations of the financial condition of its suppliers.

**Foreign currency risk**

The RMB is not a freely convertible currency. The PRC State Administration for Foreign Exchange, under the authority of the People's Bank of China, controls the conversion of RMB into foreign currencies. The value of the RMB is subject to changes in central government policies and to international economic and political developments affecting supply and demand in the China foreign exchange trading system market. The Group's cash and cash equivalents denominated in RMB amounted to $56,602, $48,144 and $6,939 at December 31, 2013, 2014 and 2015, respectively.

**Recent accounting pronouncements**

In July 2015, the Financial Accounting Standards Board ("FASB") issued a new pronouncement Inventory (Topic 330): Simplifying the Measurement of Inventory. The current guidance requires an entity to measure inventory at the lower of cost or market. Market could be replacement cost, net realizable value, or net realizable value less an approximately normal profit margin. The amendments do not apply to inventory that is measured using last-in, first-out ("LIFO") or the retail inventory method. The amendments apply to all other inventory, which includes inventory that is measured using first-in, first-out ("FIFO") or average cost. An entity should measure in scope inventory at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. Subsequent measurement is unchanged for inventory measured using LIFO or the retail inventory method. For public business entities, the amendments are effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. The amendments should be applied prospectively with earlier application permitted as of the beginning of an interim or annual reporting period. The Group is currently evaluating the impact on its consolidated financial statements of adopting this guidance.

In May 2014, the FASB issued, Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers (Topic 606)". The guidance substantially converges final standards on revenue recognition between the FASB and the International Accounting Standards Board providing a framework on addressing revenue recognition issues and, upon its effective date, replaces almost all exiting revenue recognition guidance, including industry-specific guidance, in current U.S. generally accepted accounting principles.

The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps:

- Step 1: Identify the contract(s) with a customer.
- Step 2: Identify the performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligations in the contract.
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

In August 2015, FASB issued its final standard formally amending the effective date of the new revenue recognition guidance. The amendments in this ASU are effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. The new revenue guidance may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of adoption. The Group is in the process of evaluating the impact of adoption of this guidance on its consolidated financial statements.

In November, 2015, the FASB issued a new pronouncement which changes how deferred taxes are classified on organizations' balance sheets. The ASU eliminates the current requirement for organizations to present deferred tax liabilities and assets as current and noncurrent in a classified balance sheet. Instead, organizations will be required to classify all deferred tax assets and liabilities as noncurrent. The amendments apply to all organizations that present a classified balance sheet. For public companies, the amendments are effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Earlier application is permitted for all entities as of the beginning of an interim or annual reporting period. The Group does not expect the adoption of this guidance will have a significant effect on its consolidated financial statements. See Note 13 to the consolidated financial statements for a discussion on income tax balances.

In January, 2016, the FASB issued a new pronouncement which is intended to improve the recognition and measurement of financial instruments. The ASU affects public and private companies, not-for-profit organizations, and employee benefit plans that hold financial assets or owe financial liabilities.

The new guidance makes targeted improvements to existing U.S. GAAP by:

- Requiring equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income;

- Requiring public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes;

- Requiring separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (i.e., securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements;

- Eliminating the requirement to disclose the fair value of financial instruments measured at amortized cost for organizations that are not public business entities;

- Eliminating the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; and

- Requiring a reporting organization to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk (also referred to as "own credit") when the organization has elected to measure the liability at fair value in accordance with the fair value option for financial instruments.

The new guidance is effective for public companies for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The new guidance permits early adoption of the own credit provision. The Group is currently evaluating the impact on its consolidated financial statements of adopting this guidance.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). The guidance supersedes existing guidance on accounting for leases with the main difference being that operating leases are to be recorded in the statement of financial position as right-of-use assets and lease liabilities, initially measured at the present value of the lease payments. For operating leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election not to recognize lease assets and liabilities. For public business entities, the guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application of the guidance is permitted. In transition, entities are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The Group is currently evaluating the impact on its consolidated financial statements of adopting this guidance.

In March 2016, the FASB issued ASU 2016-09, Compensation — Stock Compensation, which simplifies the accounting for the taxes related to stock based compensation, including adjustments to how excess tax benefits and a company's payments for tax withholdings should be classified. The guidance will be effective for the fiscal year beginning after December 15, 2016, including interim periods within that year. The Group is in the process of evaluating the impacts of the adoption of this ASU.

## 3. PREPAID EXPENSES AND OTHER CURRENT ASSETS

Components of other current assets which are included in the prepaid expenses and other current assets are as follows:

| | As of December 31, | |
|---|---|---|
| | **2014** | **2015** |
| | *$* | *$* |
| Receivable from processing agencies *(1)* | 2,332 | 2,329 |
| Prepayment to suppliers | 1,166 | 1,554 |
| Interest receivable | 297 | — |
| Rental deposits and prepaid rents | 414 | 218 |
| Staff advance | 24 | 63 |
| Others | 956 | 889 |
| Total | 5,189 | 5,053 |

(1) Receivables from processing agencies represented cash that had been received from customers but held by the processing agencies as of December 31, 2014 and 2015. The receivables were collected by the Group subsequent to the respective year end.

## 4. PROPERTY AND EQUIPMENT, NET

The components of property and equipment are as follows:

| | As of December 31, | |
|---|---|---|
| | **2014** | **2015** |
| | *$* | *$* |
| Leasehold improvements | 3,723 | 3,887 |
| Furniture, fixtures and office equipment | 2,431 | 2,440 |
| Software and IT equipment | 3,059 | 3,013 |
| Property and equipment, gross | 9,213 | 9,340 |
| *Less:* Accumulated depreciation | (5,549) | (7,131) |
| Property and equipment, net | 3,664 | 2,209 |

Depreciation expenses incurred for the years ended December 31, 2013, 2014 and 2015 are $1,361, $1,838 and $2,118, respectively.

**5. GOODWILL**

On December 31, 2013, the Group acquired the fashion-focused site business from Ador Inc. The acquired assets were recorded at fair value at the date of acquisition, including net working capital of $44, goodwill of $690 and other intangible assets of $266. There was no change to the carry amount of goodwill since acquisition.

**6. ACQUIRED INTANGIBLE ASSETS, NET**

The Group's intangible assets, presented in the following table, arose from the acquisition of Shanghai Ouku on May 24, 2010 and the acquisition of the fashion-focused site business from Ador Inc. on December 31, 2013.

| | December 31, 2014 | | | | December 31, 2015 | | | |
|---|---|---|---|---|---|---|---|---|
| | Gross carrying amount | Accumulated amortization | Accumulated impairment loss | Net carrying amount | Gross carrying amount | Accumulated amortization | Accumulated impairment loss | Net carrying amount |
| | $ | $ | $ | $ | $ | $ | $ | $ |
| Intangible assets not subject to amortization: | | | | | | | | |
| Trademark/Domain Name | 1,220 | — | (1,010) | 210 | 1,220 | — | (1,010) | 210 |
| Intangible assets subject to amortization: | | | | | | | | |
| — Technology Platform | 90 | (90) | — | — | 90 | (90) | — | — |
| — Non-compete Agreement | 9 | (7) | (2) | — | 9 | (7) | (2) | — |
| — Customer Base | 32 | (22) | (10) | — | 32 | (22) | (10) | — |
| — Technology | 36 | (12) | — | 24 | 36 | (24) | — | 12 |
| — Members | 20 | (5) | — | 15 | 20 | (10) | — | 10 |
| | 1,407 | (136) | (1,022) | 249 | 1,407 | (153) | (1,022) | 232 |

The amortization expenses incurred for the years ended December 31, 2013, 2014 and 2015 were nil, $17 and $17, respectively. The Group expects to record amortization expenses of $17, $5 and nil for the years ended December 31, 2016, 2017, and 2018, respectively.

**7. LONG-TERM INVESTMENT**

On February 6, 2015, the Group acquired 30% equity interest of Shantou Demon Network Technology Co., Ltd. ("Demon"), with $2,100 cash consideration. Demon owns an online website specialized in cross-border packages tracking. The Group has significant influence but does not have control over Demon. Accordingly the Group recorded it as an equity method investment.

During the year ended December 31, 2015, the Group recorded its share of loss of $34 in the consolidated statement of operations.

## 8. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

| | As of December 31, | |
|---|---|---|
| | **2014** | **2015** |
| | *$* | *$* |
| Accrued payroll and staff welfare | 13,154 | 12,817 |
| Individual income tax withheld | 621 | 605 |
| VAT payable | 327 | 301 |
| Accrued professional fees | 2,284 | 1,808 |
| Accrued advertising fees | 5,343 | 634 |
| Credit card processing charges | 449 | 376 |
| Accrued sales return *(1)* | 1,417 | 2,465 |
| Other accrued expenses | 1,474 | 977 |
| Total | 25,069 | 19,983 |

(1) Accrued sales return represents the gross profit effect of estimated sales return at the end of each of the respective years assuming products returned had no value to the Group. Movements during the respective years are as follows:

| | As of December 31, | |
|---|---|---|
| | **2014** | **2015** |
| | *$* | *$* |
| Balance at January 1 | 751 | 1,417 |
| Allowance for sales return made in the year | 14,418 | 17,491 |
| Utilization of accrued sales return | (13,752) | (16,443) |
| Balance at December 31 | 1,417 | 2,465 |

## 9. ORDINARY SHARES

In June 2013, the Company completed its IPO of American Depositary Shares ("ADSs") on the New York Stock Exchange with a total issuance of 8,492,368 ADSs at issuing price of $9.5 per ADS. Each ADS represents two ordinary shares of the Company. As such, the total ADSs represent 16,984,736 ordinary shares. Total net proceeds received were $75,030 from the IPO and the concurrent private placements, net of offering costs of $4,235.

In December 2013, the board of directors approved the Company to repurchase up to $20,000 of its own outstanding ADSs within one year from December 2013. On December 16, 2014, the Company extended its existing share repurchase program for an additional 12-month through December 15, 2015. Pursuant to the share repurchase plan, the Company repurchased 1,868,726 ADSs and 3,695,337 ADSs as of December 31, 2014, and December 31, 2015, representing 3,737,452 ordinary shares and 7,390,674 ordinary shares, with a total consideration of approximately $19,996. The shares repurchased by the Company had not been retired or canceled and were accounted for at cost as treasury stock.

## 10. SHARE OPTIONS

On October 27, 2008, the Company adopted the 2008 Share Incentive Option Plan ("2008 Plan") for the granting of share options to employees to reward them for services provided to the Company and to provide incentives for future services. Pursuant to the 2008 Plan, total shares that the 2008 Plan was authorized to grant were 4,444,444 shares. In May 2014, the Company authorized the issuance of an additional 6,900,000 ordinary shares to support the Company's business expansion and recruiting plans. The majority of the options will vest over four years where 25% of the options will vest at the end of the first year after the grant date through the fourth year. The share options expire 10 years from the date of grant.

In 2013, the Company granted 307,250 share options under the 2008 Plan to employees at exercise price of $4.75 per share. These share options vest over a period ranged from three to four years.

In 2014, the Company granted 1,797,300 share options under the 2008 Plan to employees at exercise prices ranged from $1.84 to $3.26 per share. These share options vest over a period ranged from three to four years.

In 2015, the Company granted 546,400 share options under the 2008 Plan to employees at exercise prices at $2.25 per share. These share options vest over a period from three months to four years.

In May 2015, the Company cancelled 139,000 share options that were granted to certain employees under the Company's 2008 share incentive plans and replaced with grants of 139,000 nonvested shares (the "modification") with the same service condition. The weighted average exercise price before and after the modification are $4.62, respectively. Incremental compensation costs relating to this modification is approximately $210. The Company recognize $90 of incremental compensation cost on the date of modification relating to the vested awards. The remaining incremental compensation costs of $120 is to be recognized over the remaining service period (for unvested awards), which ranges from 3-months to 2-years.

The fair value of each option granted was estimated on the date of grant or modification using binomial option pricing model with the following assumptions during the applicable periods:

| | **2014** | **2015** |
|---|---|---|
| Risk-free interest rate | 3.75%-4.05% | 3.59% |
| Exercise multiple | 2.2-2.8 | 2.2 |
| Expected volatility | 57.09%-63.88% | 61.2% |
| Expected dividend yield | 0% | 0% |
| Fair value of ordinary shares | $2.53-$3.26 | $1.28 |

### (1) Risk-free interest rate

Risk-free interest rate was estimated based on the yield to maturity of China international government bonds with a maturity period close to the contractual term of the options.

### (2) Exercise multiple

Exercise multiple represents the value of the underlying share as a multiple of exercise price of the option which, if achieved, results in exercise of the option.

**(3) Volatility**

The volatility of the underlying ordinary shares during the life of the options was estimated based on the historical stock price volatility of comparable listed companies over a period comparable to the contractual term of the options.

**(4) Dividend yield**

The dividend yield was estimated by the Group based on its expected dividend policy over the contractual term of the options.

**(5) Fair value of underlying ordinary shares**

Before the Company's IPO, the estimated fair value of the ordinary shares underlying the options as of the respective grant dates was determined based on a retrospective valuation. When estimating the fair value of the ordinary shares on the grant dates, management has considered a number of factors, including the result of the third-party appraisals prepared by independent valuation firms, and equity transactions of the Company.

After the Company's IPO, the fair value of the underlying ordinary shares is determined based on the closing market price of the ADS of the Company as of the grant date.

A summary of the stock option activity under the 2008 Plan as of December 31, 2015, and changes during the year then ended is presented below:

| | **Options granted** | **Weighted average exercise price per option** |
|---|---|---|
| | | *$* |
| Outstanding at January 1, 2015 | 2,506,300 | 2.35 |
| Granted | 546,400 | 2.25 |
| Exercised | (175,950) | 2.31 |
| Cancelled | (139,000) | 4.62 |
| Forfeited | (1,363,700) | 2.47 |
| Outstanding at December 31, 2015 | 1,374,050 | 1.98 |

The following table summarizes information regarding the share options granted as of December 31, 2015:

| | As of December 31, 2015 | | | |
|---|---|---|---|---|
| | Options Number | Weighted-average exercise price per option | Weighted-average remaining contractual life (years) | Aggregate intrinsic value |
| | | *$* | | *$* |
| Options | | | | |
| Outstanding | 1,374,050 | 1.98 | 7.49 | 291 |
| Exercisable | 755,550 | 1.66 | 7.49 | 291 |
| Expected to vest | 494,800 | 2.37 | 9.18 | — |

The total intrinsic value of options exercised during the years ended December 31, 2013, 2014 and 2015 were $1,235, $119, and $253 respectively.

The weighted average grant date fair value of options granted during the years ended December 31, 2013, 2014 and 2015 was $2.45, $1.42 and $1.28, respectively.

For the years ended December 31, 2013,2014 and 2015, the Group recorded share-based compensation expense of $280, $291 and $5 related to the options under the 2008 Plan, respectively. As of December 31, 2015, there was $1,071 of unrecognized compensation cost related to the options, which is expected to be recognized over a weighted-average period of 2.98 years.

## 11. NONVESTED SHARES

In 2011, the Company granted 1,820,010 nonvested shares to certain employees. These nonvested shares vest over a four year period from the date of the grant.

In 2013, the Company granted 711,571 nonvested shares to certain officers and employees. These nonvested shares vest over a period ranged from two to four years.

In 2014, the Company granted 2,800,300 nonvested shares to certain officers and employees. These nonvested shares vest over a period ranged from three to four years.

In 2015, the Company granted 3,154,800 nonvested to certain officers and employees. These nonvested shares vest over a period from three months to four years.

The holders of the nonvested shares are entitled to voting rights, but shall not be entitled to dividends before vesting.

The following table summarizes information regarding the nonvested shares granted and vested:

| | Number of Shares | Weighted average grant date fair value |
|---|---|---|
| | | $ |
| Outstanding at January 1, 2015 | 2,583,337 | 2.58 |
| Granted | 3,154,800 | 2.22 |
| Forfeited | (1,106,177) | 2.27 |
| Vested | (1,316,696) | 2.12 |
| Outstanding at December 31, 2015 | 3,315,264 | 2.52 |

The total fair value of shares vested during the years ended December 31, 2013, 2014 and 2015, was $3,453, $ 2,123 and $2,791 respectively.

For the years ended December 31, 2013, 2014 and 2015, the Group recorded share-based compensation expenses of $4,038 ,$2,227 and $3,191 related to the nonvested shares, respectively. As of December 31, 2015, there was $7,509 of unrecognized compensation costs related to nonvested shares, which are expected to be recognized over a weighted-average period of 3.02 years.

Total share-based compensation expenses for share options and nonvested shares for the years ended December 31, 2013, 2014 and 2015 were as follows:

| | Year ended December 31, | | |
|---|---|---|---|
| | 2013 | 2014 | 2015 |
| | $ | $ | $ |
| Fulfillment | 9 | 46 | 185 |
| Selling and marketing | 134 | 231 | 580 |
| General and administrative | 4,175 | 2,241 | 2,431 |
| Total | 4,318 | 2,518 | 3,196 |

## 12. INCOME TAXES

### Cayman Islands

The Company is a tax-exempted company incorporated in the Cayman Islands and is not subject to tax on income or capital gains.

### Hong Kong

Light In The Box, Lanting International and LightInTheBox Logistic are located in Hong Kong and subject to Hong Kong profits tax at 16.5% with respect to the profit generated from Hong Kong.

**PRC**

Except Lanting Huitong and Lanting Gaochuang, other entities of the Group domiciled in the PRC are subject to 25% statutory income tax rates in accordance with the Enterprise Income Tax Law ("EIT Law") in the periods presented. Lanting Huitong qualified as a "software enterprise" and therefore enjoyed a two-year income tax exemption starting from 2010, the first profit making year, followed by a reduced tax rate of 12.5% for the subsequent three years. Lanting Huitong is subject to 25% statutory income tax rate starting from 2015. Lanting Gaochuang qualified as a "software enterprise" in 2012 and therefore is entitled to a two-year income tax exemption starting from 2013, its first profit making year, followed by a reduced tax rate of 12.5% for the subsequent three years.

For the years ended December 31, 2013, 2014 and 2015, income tax expense included in the consolidated statements of operations were attributable to the Group's PRC subsidiary and VIEs and comprised current tax expense $69, $70 and $49, respectively. There was no material deferred tax expense for the years ended December 31, 2013, 2014 and 2015.

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

| | **As of December 31,** | |
|---|---|---|
| | **2014** | **2015** |
| | *$* | *$* |
| Current deferred tax assets: | | |
| Accrued payroll | 2,885 | 2,650 |
| Accrued expenses | 214 | 69 |
| Accrued inventory provision | 132 | 369 |
| *Less:* Valuation allowance | (3,231) | (3,088) |
| Current deferred tax assets, net | — | — |
| Non-current deferred tax asset: | | |
| Net operating loss carry forwards | 10,476 | 16,232 |
| *Less:* Valuation allowance | (10,476) | (16,232) |
| Non-current deferred tax asset, net | — | — |
| Total deferred tax asset, net | — | — |

The Group had no deferred tax liabilities as of December 31, 2013, 2014 and 2015.

The Group operates through its subsidiaries and VIEs and the valuation allowance is considered on each individual subsidiary and VIE basis. The net operating loss carry forwards of the subsidiaries and VIEs registered in the PRC will expire on various dates through 2020. The Group has recognized a full valuation allowance against deferred tax assets as the Group believes that it is more likely than not that its deferred tax assets will not be realized as it does not expect to generate sufficient taxable income in the near future.

**Movement of valuation allowance**

| | As of December 31, | |
|---|---|---|
| | **2014** | **2015** |
| | *$* | *$* |
| Balance at beginning of the period | 8,642 | 13,707 |
| Additions | 5,683 | 5,993 |
| Reversals | (618) | (380) |
| Balance at end of the period | 13,707 | 19,320 |

Reconciliation between the expense of income taxes computed by applying the PRC tax rate to loss before income taxes and the actual provision for income taxes is as follows:

| | Years ended December 31, | | |
|---|---|---|---|
| | **2013** | **2014** | **2015** |
| | *$* | *$* | *$* |
| Loss before provision of income tax | (4,750) | (29,917) | (39,324) |
| Statutory tax rate in the PRC | 25% | 25% | 25% |
| Income tax at statutory tax rate | (1,187) | (7,479) | (9,831) |
| Non-deductible expenses | 225 | 92 | 8 |
| Effect of income tax holiday and preferential tax rates | (62) | (76) | (25) |
| Utilisation of tax loss previously not recognized | — | — | (298) |
| Effect of income tax rate differences in jurisdictions other than the PRC | 1,291 | 2,468 | 4,582 |
| Changes in valuation allowances | (198) | 5,065 | 5,613 |
| Income tax expense | 69 | 70 | 49 |

The Group did not identify significant unrecognized tax benefits for the years ended December 31, 2014 and 2015. The Group did not incur any interest related to unrecognized tax benefits, did not recognized any penalties as income tax expenses and also does not anticipate any significant change in unrecognized tax benefits within 12 months from December 31, 2015.

Uncertainties exist with respect to how the current income tax law in the PRC applies to the Group's overall operations, and more specifically, with regard to tax residency status. The EIT Law includes a provision specifying that legal entities organized outside of the PRC will be considered residents for Chinese Income tax purposes if the place of effective management or control is within the PRC. The implementation rules to the new EIT law provide that non-resident legal entities will be considered PRC residents if substantial and overall management and control over the manufacturing and business operations, personnel, accounting and properties occurs within the PRC. On April 22, 2009, the State Administration of Taxation (the "SAT") issued the Notice Regarding the Determination of Chinese-

Controlled Offshore Incorporated Enterprises as PRC Tax Resident Enterprises on the Basis of De Facto Management Bodies, or Circular 82, which provides certain specific criteria for determining whether the "de facto management body" of a Chinese-controlled offshore-incorporated enterprise is located in China. Circular 82, though technically only applies to China-controlled overseas registered enterprises, has made detailed explanations and clarification with respect to "substantial and overall management and control" over production and business operations, personnel, accounting and properties which provides a general guidance for the determination of PRC tax resident. Despite the present uncertainties resulting from the limited PRC tax guidance on the issue, the Group does not believe that the legal entities organized outside of the PRC within the Group should be treated as residents for EIT law purposes. However, if the PRC tax authorities subsequently determine that the Company and its subsidiaries registered outside the PRC should be deemed resident enterprises, the Company and its subsidiaries registered outside the PRC will be subject to the PRC income taxes, at a rate of 25%.

If any entity within the Group that is outside the PRC were to be a non-resident for PRC tax purposes dividends paid to it out of profits earned after January 1, 2008 would be subject to a withholding tax at a rate of 10%, subject to reduction by an applicable tax treaty with the PRC. As of December 31, 2014 and December 31, 2015, the Company's subsidiaries located in the PRC recorded aggregate accumulated deficits. Accordingly, no deferred tax liability has been accrued for the Chinese dividend withholding taxes. In the future, aggregate undistributed earnings of the Company's subsidiaries located in the PRC, if any, that are taxable upon distribution to the Company, will be considered to be indefinitely reinvested, because the Group does not have any plan to pay cash dividends on its ordinary shares in the foreseeable future and intends to retain most of its available funds and any future earnings for use in the operation and expansion of its business.

In accordance with relevant the PRC tax administration laws, tax years from 2010 to 2014 of the Group's PRC entities remain subject to tax audits as of December 31, 2015, at the tax authority's discretion.

## 13. LOSS PER SHARE

The following table sets forth the computation of basic and diluted net loss per ordinary share for the following years:

| | 2013 | 2014 | 2015 |
|---|---|---|---|
| | *$* | *$* | *$* |
| **Numerator:** | | | |
| Net loss | (4,819) | (29,987) | (39,407) |
| Accretion of Series C convertible redeemable preferred shares | 1,621 | — | — |
| **Net income attributable to Series C preferred shares for computing basic net income per Series C preferred share** | 1,621 | — | — |
| **Net loss attributable to ordinary shareholders of LightInTheBox Holding Co., Ltd.** | (6,440) | (29,987) | (39,407) |
| Net loss attributable to shareholders of the Company allocated for computing net loss per ordinary share-basic | (6,440) | (29,987) | (39,407) |
| Net loss per ordinary share-basic | (0.09) | (0.30) | (0.41) |
| Net loss per ordinary share-diluted | (0.09) | (0.30) | (0.41) |
| Net income per Series C preferred share | 0.38 | — | — |
| **Numerator** | | | |
| **Shares (denominator):** | | | |
| Weighted average number of shares used in calculating net loss per Series C preferred share — basic | 4,257,266 | — | — |
| Weighted average number of shares used in calculating net loss per ordinary share — basic | 71,555,449 | 99,001,560 | 94,970,054 |

As a result of the Group's net loss for each of the three years ended December 31, 2015, 1,562,850, 2,506,300 and 1,374,050 options outstanding and 995,202, 2,583,337 and 3,315,264 nonvested shares outstanding as of December 31, 2013, 2014 and 2015 respectively, were excluded from the computation of diluted net loss per share as their inclusion would have been anti-dilutive.

## 14. EMPLOYEE RETIREMENT BENEFIT

Full time employees in the PRC participate in a government-mandated defined contribution plan pursuant to which certain pension benefits, medical care, unemployment insurance, employee housing fund and other welfare benefits are provided to employees. The PRC labor regulations require the Group to make contributions based on certain percentages of the employees' basic salaries. Other than the contribution, there is no further obligation under these plans. The total contribution for such employee benefits was $5,603, $5,544, and $5,159 for the years ended December 31, 2013, 2014 and 2015, respectively.

## 15. STATUTORY RESERVES AND RESTRICTED NET ASSETS

In accordance with the PRC laws and regulations, the group is required to provide for certain statutory reserves, namely general reserve, enterprise expansion reserve, and staff welfare and bonus reserve, all of which are appropriated from net profit as reported in their PRC statutory accounts. The Group's subsidiaries are required to allocate at least 10% of their after-tax profits to the general reserve until such reserve has reached 50% of their respective registered capital.

Appropriations to the enterprise expansion reserve and the staff welfare and bonus reserve are to be made at the discretion of the board of directors of each of the Group's subsidiaries. There are no appropriations to these reserves by the Group's PRC (mainland) subsidiaries for the years ended December 31, 2013, 2014 and 2015.

As a result of these PRC laws and regulations and the requirement that distributions by the PRC entities can only be paid out of distributable profits computed in accordance with the PRC GAAP, the PRC entities are restricted from transferring a portion of their net assets to the Group. Amounts restricted include paid-in capital and the statutory reserves of the Company's PRC subsidiaries and VIEs. As of December 31, 2015, the amounts of capital represented the amount of net assets of the relevant subsidiaries and VIEsin the Group not available for distribution amounted to $5,089.

## 16. SEGMENT REPORTING

The Group's chief operating decision maker has been identified as the Chief Executive Officer, who reviews the consolidated results when making decisions about allocating resources and assessing performance of the Group. The Group has one operating segment.

Components of the Group's net revenues are presented in the following table:

| | For the years ended December 31, | | |
|---|---|---|---|
| | **2013** | **2014** | **2015** |
| | *$* | *$* | *$* |
| Apparel | 86,459 | 138,570 | 123,113 |
| Other general merchandise | 205,958 | 243,837 | 200,650 |
| Total net revenues | 292,417 | 382,407 | 323,763 |

The following table summarizes the Group's total net revenues generated in different geographic locations and as a percentage of total net revenues.

| | For the years ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | **2013** | | **2014** | | **2015** | |
| | **Revenues** | **%** | **Revenues** | **%** | **Revenues** | **%** |
| | *$* | | *$* | | *$* | |
| Europe | 182,958 | 62.5 | 239,176 | 62.5 | 191,361 | 59.1 |
| North America | 54,858 | 18.8 | 81,675 | 21.4 | 92,430 | 28.5 |
| Other countries | 54,601 | 18.7 | 61,556 | 16.1 | 39,972 | 12.4 |
| Total net revenues | 292,417 | 100 | 382,407 | 100 | 323,763 | 100 |

North America's net revenues include revenues from the United States of, $46,136, $65,376 and $77,407 during the years ended December 31, 2013, 2014 and 2015 respectively. Europe's net revenues include revenues from France of $42,504, $52,264 and $41,161 during the years ended December 31, 2013, 2014 and 2015, respectively.

As of December 31, 2013, 2014 and 2015 substantially all of long-lived assets of the Group are located in the PRC.

## 17. FAIR VALUE MEASUREMENTS

The Group had no financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2013, 2014 and 2015.

Goodwill and other intangible assets are measured at fair value on a nonrecurring basis when impairment is recognized. The Group estimated the fair value of a reporting unit using the discounted cash flow method under the income approach. The discounted cash flows were based on five years financial forecasts developed by management for planning purposes and estimated discount rates. Cash flows beyond the forecasted period were estimated using a terminal value calculation. The fair values of intangible asset were determined based on various valuation methods, including the replacement cost method the relief from royalty method.

## 18. RELATED PARTY TRANSACTIONS

The Group entered into indemnification agreements with certain directors. These agreements require the company to indemnify such individuals, to the fullest extent permitted by law, for certain liabilities to which they may become subject to as a result of their affiliation with the Company.

## 19. COMMITMENTS AND CONTINGENCIES

### (1) Commitments

***Lease commitment***

The Group has operating lease agreements for warehouses and offices. Rent expenses under operating leases for the years ended December 31, 2013, 2014 and 2015 were $3,005, $3,906 and $4,461 respectively. Future minimum lease payments under non-cancellable operating lease agreements as of December 31, 2015 are as follows:

| | *$* |
|---|---:|
| 2016 | 2,286 |
| 2017 | 1,258 |
| 2018 | 842 |
| | 4,386 |

**(2) Contingencies**

The Group's PRC subsidiaries and VIEs, have not fully paid the contributions for employee benefit plans as required by applicable PRC regulations. While the Group believes it has made adequate provision of such outstanding amounts in the consolidated financial statements, prior failure to make payments may be in violation of applicable PRC labor-related laws and the Group may be subject to fines up to maximum of 3 times if it fails to rectify any such breaches within the period prescribed by the relevant authorities. As of December 31, 2015, there had been no actions initiated by the relevant authorities. The Group is unable to reasonably estimate the actual amount of fines and penalty that may rise if the authorities were to become aware of the non-compliance and were to take action.

The Group's PRC subsidiaries and VIEs did not withhold appropriate amount of individual income tax prior to its IPO as required by applicable PRC tax laws. While the Group believes it has made adequate provision of such outstanding amounts in the consolidated financial statements, and in March 2013, the accrued amounts were substantially paid by the Group on a voluntary basis to the relevant tax authority, the Group may still be subject to future fines or levies for such non-compliance. As of December 31, 2015, there had been no actions initiated by the relevant authorities. The Group is unable to reasonably estimate the actual amount of fines or levies that may rise if the authorities were to take action.

The Group is subject to periodic legal or administrative proceedings in the ordinary course of business. The Group does not believe that any currently pending legal or administrative proceeding to which the Group is a party will have a material effect on its business or financial condition.

**20. SUBSEQUENT EVENTS**

On March 17, 2016, the Company entered into an agreement with a subsidiary of Zall Development Group Ltd. (HKSE Code: 2098) ("Zall Development), a developer and operator of large-scale consumer product wholesale shopping malls in China. Under the terms of this agreement, the Group has agreed to issue to Zall Development, a total of 42,500,000 ordinary shares (equivalent to 21,250,000 ADSs), representing a 30% equity interest in the Group on a fully diluted basis for a total cash consideration of $76,500. In connection with the issuance of ordinary shares, the Group also agreed to issue a warrant to Zall Development for up to 7,455,000 ordinary shares (equivalent to 3,737,500 ADS) at an exercise price of $2.75 per ordinary share. The warrant is exercisable starting six months after the closing, and terminate 24 months after closing. Zall Development has the right to appoint two directors out of five to the Group's board of directors, among other things, and the Group has granted Zall Development certain registration and anti-dilution rights. The Group has received the cash consideration of $76,500 on March 24, 2016 and the transaction was closed on March 30, 2016.

**Additional Information — Financial Statement Schedule I**

**Condensed Financial Information of Parent Company**

**Balance Sheets**

*(U.S. dollars in thousands, except share data and per share data, or otherwise noted)*

| | December 31, | |
|---|---|---|
| | 2014 | 2015 |
| | *$* | *$* |
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | 53,691 | 10,083 |
| Term deposit | 5,802 | — |
| Prepaid expense and other current assets | 774 | 551 |
| Amounts due from subsidiaries and VIEs | 57,025 | 95,259 |
| Deficit in subsidiaries and VIEs | (72,749) | (106,181) |
| TOTAL ASSETS | 44,543 | (288) |
| LIABILITIES AND EQUITY | | |
| Current Liabilities | | |
| Accrued expenses and other current liabilities | 1,360 | 1,835 |
| TOTAL LIABILITIES | 1,360 | 1,835 |
| EQUITY (DEFICIT) | | |
| Ordinary shares ($0.000067 par value; 750,000,000 shares authorized; 100,354,801 and 101,847,447 shares issued as of December 31, 2014 and December 31, 2015, respectively; 96,617,349 and 94,456,773 shares outstanding as of December 31, 2014 and December 31, 2015, respectively) | 7 | 7 |
| Additional paid-in capital | 155,872 | 159,190 |
| Accumulated deficit | (101,608) | (141,015) |
| Accumulated other comprehensive loss | (131) | (309) |
| Treasury shares, at cost (3,737,452 and 7,390,674 shares as of December 31, 2014, and December 31, 2015 respectively) | (10,957) | (19,996) |
| TOTAL EQUITY (DEFICIT) | 43,183 | (2,123) |
| TOTAL LIABILITIES AND EQUITY | 44,543 | (288) |

**Statements of Operations**

*(U.S. dollars in thousands)*

| | Years ended December 31, | | |
|---|---|---|---|
| | **2013** | **2014** | **2015** |
| | *$* | *$* | *$* |
| Operating expenses: | | | |
| General and administrative | (4,312) | (6,949) | (6,554) |
| Loss from operations | (4,312) | (6,949) | (6,554) |
| Equity in losses of subsidiaries and VIEs | (716) | (25,325) | (33,570) |
| Interest income | 209 | 2,287 | 717 |
| Net loss | (4,819) | (29,987) | (39,407) |
| Accretion for Series C convertible redeemable preferred shares | (1,621) | — | — |
| Net loss attributable to ordinary shareholders | (6,440) | (29,987) | (39,407) |

**Statements of Comprehensive Loss**

*(U.S. dollars in thousands)*

| | Years ended December 31, | | |
|---|---|---|---|
| | **2013** | **2014** | **2015** |
| | *$* | *$* | *$* |
| Net loss | (4,819) | (29,987) | (39,407) |
| Other comprehensive loss, net of tax: | | | |
| Foreign currency translation adjustment, net of tax of nil | (89) | (12) | (178) |
| Total comprehensive loss | (4,908) | (29,999) | (39,585) |

**Statements of Cash Flows**

*(U.S. dollars in thousands)*

| | Years ended December 31, | | |
|---|---|---|---|
| | 2013 | 2014 | 2015 |
| | $ | $ | $ |
| Net loss | (4,819) | (29,987) | (39,407) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: | | | |
| Share-based compensation | 4,318 | 2,518 | 3,196 |
| Equity in losses of subsidiaries and VIEs | 716 | 25,325 | 33,570 |
| Changes in operating assets and liabilities: | | | |
| Prepaid expense and other current assets | (2,014) | 854 | 856 |
| Accrued expenses and other current liabilities | 1,267 | 139 | (475) |
| Net cash used in operating activities | (532) | (1,151) | (2,260) |
| Cash flows from investing activities | | | |
| Purchase of term deposit | (79,958) | (81,557) | (14,380) |
| Maturity of term deposit | — | 155,713 | 20,182 |
| Amounts due from subsidiaries and VIEs | 4,316 | (12,898) | (37,926) |
| Net cash (used in) provided by investing activities | (75,642) | 61,258 | (32,124) |
| Cash flows from financing activities | | | |
| Proceeds from exercise of share options | 193 | 230 | 122 |
| Proceeds from initial public offering | 75,030 | — | — |
| Repurchase of ordinary shares | — | (10,650) | (9,346) |
| Payment of professional fees related to initial public offering | (3,127) | — | — |
| Net cash provided by (used in) financing activities | 72,096 | (10,420) | (9,224) |
| Net (decrease) increase in cash and cash equivalents | (4,078) | 49,687 | (43,608) |
| Cash and cash equivalents at beginning of year | 8,082 | 4,004 | 53,691 |
| Cash and cash equivalents at end of year | 4,004 | 53,691 | 10,083 |

## Notes to Schedule I

*(U.S. dollars in thousands, except share data and per share data, or otherwise noted)*

**1. BASIS FOR PREPARATION**

The condensed financial information of the parent company has been prepared using the same accounting policies as set out in the Group's consolidated financial statements except that the parent company used the equity method to account for deficit in its subsidiaries and VIEs.

The condensed financial information is provided since the restricted net assets of the Group's subsidiaries and VIEs were over the 25% of the consolidated net assets of the Group as of December 31, 2015.

**2. INVESTMENTS IN SUBSIDIARIES AND VIES**

In its consolidated financial statements, the parent company consolidates the results of operations and assets and liabilities of its subsidiaries and VIEs, and inter-company balances and transactions were eliminated upon consolidation. For the purpose of the parent company's stand-alone financial statements, its deficit in subsidiaries and VIEs are reported using the equity method of accounting as a single line item and the parent company's share of income (loss) from its subsidiaries and VIEs are reported as the single line item of equity in losses of subsidiaries and VIEs. Ordinarily under the equity method, an investor in an equity method investee would cease to recognize its share of the losses of an investee once the carrying value of the investment has been reduced to nil absent an undertaking by the investor to provide continuing support and fund losses. For the purpose of this Schedule I, the parent company has continued to reflect its share, based on its proportionate interest, of the losses of a subsidiary or VIE regardless of the carrying value of the investment even though the parent company is not obligated to provide continuing support or fund losses.

The parent company carried the deficit in subsidiaries and VIEs at $72,749 and $106,181 at December 31, 2014 and 2015, respectively. The parent company's share of equity in losses in subsidiaries and VIEs recognized in years ended December 31, 2013, 2014 and 2015 was $716, $25,325 and $33,570, respectively.

## DIFFERENCES BETWEEN ACCOUNTING POLICIES ADOPTED BY THE COMPANY (INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS") AND LIGHTINTHEBOX HOLDING CO., LTD. ("LITB") (GENERALLY ACCEPTED ACCOUNTING PRINCIPLES IN THE UNITED STATES OF AMERICA ("U.S. GAAP"))

As described in the section entitled "Letter from the Board — Waivers from Strict Compliance with Rules 14.67(6)(a)(i) and 14.67(7) of the Listing Rules" of this circular, the Company has applied to The Stock Exchange of Hong Kong Limited (the "Stock Exchange") for, and been granted, a waiver from the requirement to include in this circular an accountants' report on LITB and its consolidated subsidiaries, variable interest entities ("VIEs") and VIE's subsidiary (collectively referred to as the "LITB Group") in accordance with Rule 14.67(6)(a)(i) and Chapter 4 of the Rules Governing the Listing of Securities on the Stock Exchange.

Instead, the circular contains a copy of the:

> Financial statements of LITB for the three financial years ended 31 December 2013, 2014 and 2015, prepared in accordance with U.S. GAAP and audited by Deloitte Touche Tohmatsu Certified Public Accountants LLP, Beijing, the People's Republic of China ("Deloitte China") (Collectively referred to the "LITB Historical Track Record Accounts" as set out in this Appendix II)

The LITB Historical Track Record Accounts cover the financial positions of LITB Group as at 31 December 2013, 2014 and 2015 and the results of the LITB Group for each of the three years ended 31 December 2013, 2014 and 2015 (the "Relevant Periods").

The accounting policies adopted in the preparation of the LITB Historical Track Record Accounts differ in certain material respects from the accounting policies presently adopted by the Company which comply with IFRS. Differences, other than presentational differences, which would have a significant effect on the LITB Historical Track Record Accounts had they been prepared in accordance with the accounting policies presently adopted by the Company rather than in accordance with U.S. GAAP for the LITB Historical Track Record Accounts, are set out below in the section entitled "LITB's Unaudited Adjusted Financial Information under the Company's Policies".

In particular, disclosure is set out providing:

(a) a comparison between LITB's consolidated statements of operations as extracted from the LITB Historical Track Record Accounts on the one hand (prepared in

accordance with U.S. GAAP), and a restatement of such consolidated statements of operations had they instead been prepared in accordance with the accounting policies presently adopted by the Company which are in compliance with IFRS. The process applied in the preparation of such restatement is set out below;

(b) a comparison between LITB's consolidated balance sheets as extracted from the LITB Historical Track Record Accounts on the one hand (prepared in accordance with U.S. GAAP ), and a restatement of such consolidated balance sheets had they instead been prepared in accordance with the accounting policies presently adopted by the Company which are in compliance with IFRS. The process applied in the preparation of such restatement is also set out below; and

(c) a discussion of the material financial statements line item differences arising out of the restatement exercise outlined in (a) and (b) above.

(the reconciliation for the LITB Historical Track Record Accounts is referred to as the "**Reconciliation Information**")

**Basis of Preparation**

The Reconciliation Information as at and for the years ended 31 December 2013, 2014 and 2015 restates the "Unadjusted Financial Information under U.S. GAAP" of LITB as if it had been prepared in accordance with the accounting policies presently adopted by the Company which are in compliance with IFRS.

**Reconciliation Process**

The Reconciliation Information has been prepared by the directors of the Company by comparing the differences between the accounting policies adopted by LITB for the years ended 31 December 2013, 2014 and 2015 which are prepared in accordance with U.S. GAAP, and the accounting policies presently adopted by the Company which are in compliance with IFRS, and quantifying the relevant material financial effects of such differences, if any. Your attention is drawn to the fact that the Reconciliation Information has not been subject to an independent audit. Accordingly, no opinion is expressed by an auditor on whether it presents a true and fair view of LITB's financial positions as at 31 December 2013, 2014, and 2015, nor its results for the years then ended under the accounting policies presently adopted by the Company which are in compliance with IFRS.

Deloitte Hong Kong was engaged by the Company to conduct work in accordance with the Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" ("HKSAE 3000") issued by the HKICPA on the Reconciliation Information. The work consisted primarily of:

(i) comparing the "Unadjusted Financial Information under U.S. GAAP" as set out below in the section entitled "LITB's Unaudited Adjusted Financial Information under the Company's Policies" with the LITB Historical Track Record Accounts prepared under U.S. GAAP,

(ii) considering the adjustments made and evidence supporting the adjustments made in arriving at the "Adjusted Financial Information under the Company's Policies" also set out below in the section entitled "LITB's Unaudited Adjusted Financial Information under the Company's Policies", which included examining the differences between LITB's accounting policies and the Company's accounting policies; and

(iii) checking the arithmetic accuracy of the computation of the "Adjusted Financial Information under the Company's Policies".

Deloitte Hong Kong's engagement did not involve independent examination of any of the underlying financial information. The work carried out in accordance with HKSAE 3000 is different in scope from an audit or review conducted in accordance with Hong Kong Standards on Auditing or Hong Kong Standards on Review Engagements issued by the HKICPA and consequently, Deloitte Hong Kong did not express an audit opinion nor a review conclusion on the Reconciliation Information. Deloitte Hong Kong's engagement was intended solely for the use of the directors of the Company in connection with this circular and may not be suitable for another purpose. Based on the work performed, Deloitte Hong Kong has concluded that:

(i) the "Unadjusted Financial Information under U.S. GAAP" as set out in the section entitled "LITB's Unaudited Adjusted Financial Information under the Company's Policies" is in agreement with the LITB Historical Track Record Accounts;

(ii) the adjustments reflect, in all material respects, the differences between LITB's accounting policies and the Company's accounting policies; and

(iii) the computation of the "Adjusted Financial Information under the Company's Policies" is arithmetically accurate.

**LITB's Unaudited Adjusted Financial Information under the Company's Policies**

LITB's consolidated financial statements for the years ended 31 December 2013, 2014 and 2015 have been prepared and presented under U.S. GAAP. There are no material differences between LITB's consolidated financial statements for the years ended 31 December 2013, 2014 and 2015 as presented under LITB's then U.S. GAAP accounting

policies, compared to that applying the accounting policies presently adopted by the Company which are in compliance with IFRS other than as set out below:

1) Share-based Compensation

2) Preferred Shares

3) Convertible notes

The following unaudited adjusted consolidated statements of operations for each of the three years ended 31 December 2013, 2014 and 2015 and the unaudited adjusted consolidated balance sheets as at 31 December 2013, 2014 and 2015 of LITB set out in the Reconciliation Information below are derived from the consolidated financial statements for each of the three years ended 31 December 2013, 2014 and 2015 which are prepared under U.S. GAAP, as included in this Appendix II of the circular. The consolidated statements of cash flows are not presented as there are no significant differences except for presentational differences. Your attention is drawn to the fact that the work carried out in accordance with HKSAE3000 is different in scope from an audit or a review conducted in accordance with Hong Kong Standards on Auditing or Hong Kong Standards on Review Engagements issued by the HKICPA and consequently, Deloitte Hong Kong did not express an audit opinion nor a review conclusion on the Reconciliation Information.

## Unaudited Adjusted Consolidated Statements of Operations under the Company's Policies

| | | For the year ended 31 December | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | 2013 | | | 2014 | | | 2015 | | |
| US$'000 | Notes | Unadjusted Financial Information under U.S. GAAP *Audited* | Adjustments *Unaudited* | Adjusted financial information under the Company's policies *Unaudited* | Unadjusted Financial Information under U.S. GAAP *Audited* | Adjustments *Unaudited* | Adjusted financial information under the Company's policies *Unaudited* | Unadjusted Financial Information under U.S. GAAP *Audited* | Adjustments *Unaudited* | Adjusted financial information under the Company's policies *Unaudited* |
| Net revenues | | 292,417 | — | 292,417 | 382,407 | — | 382,407 | 323,763 | — | 323,763 |
| Cost of goods sold | | (165,267) | — | (165,267) | (237,095) | — | (237,095) | (207,354) | — | (207,354) |
| Gross profit | | 127,150 | — | 127,150 | 145,312 | — | 145,312 | 116,409 | — | 116,409 |
| Operating expenses | | | | | | | | | | |
| Fulfillment | 1 | (15,963) | 22 | (15,941) | (23,926) | 102 | (23,824) | (22,419) | 205 | (22,214) |
| Selling and marketing | 1 | (84,245) | 42 | (84,203) | (105,186) | 449 | (104,737) | (91,614) | 164 | (91,450) |
| General and administrative | 1 | (31,929) | (272) | (32,201) | (46,916) | 88 | (46,828) | (41,535) | (266) | (41,801) |
| Total operating expenses | | (132,137) | (208) | (132,345) | (176,028) | 639 | (175,389) | (155,568) | 103 | (155,465) |
| Loss from operations | | (4,987) | (208) | (5,195) | (30,716) | 639 | (30,077) | (39,159) | 103 | (39,056) |
| Exchange loss on offshore bank accounts | | — | — | — | (1,556) | — | (1,556) | (938) | — | (938) |
| Interest income | | 1,606 | — | 1,606 | 2,355 | — | 2,355 | 773 | — | 773 |
| Interest expense | 3 | (1,369) | 662 | (707) | — | — | — | — | — | — |
| Change in fair value on preferred shares | 2 | — | (97) | (97) | — | — | — | — | — | — |
| Change in fair value on convertible notes | 3 | — | (299) | (299) | — | — | — | — | — | — |
| Loss before income taxes | | (4,750) | 58 | (4,692) | (29,917) | 639 | (29,278) | (39,324) | 103 | (39,221) |
| Income taxes expenses | | (69) | — | (69) | (70) | — | (70) | (49) | — | (49) |
| Loss from equity method investment | | — | — | — | — | — | — | (34) | — | (34) |
| Net loss | | (4,819) | 58 | (4,761) | (29,987) | 639 | (29,348) | (39,407) | 103 | (39,304) |
| Accretion for Series C convertible redeemable preferred shares | 2 | (1,621) | 1,621 | — | — | — | — | — | — | — |
| Net loss attributable to ordinary shareholders | | (6,440) | 1,679 | (4,761) | (29,987) | 639 | (29,348) | (39,407) | 103 | (39,304) |

## Unaudited Adjusted Consolidated Balance Sheets under the Company's Policies

| | As of 31 December | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2013 | | | 2014 | | | 2015 | | |
| | Unadjusted Financial Information under U.S. GAAP | Adjustments | Adjusted financial information under the Company's policies | Unadjusted Financial Information under U.S. GAAP | Adjustments | Adjusted financial information under the Company's policies | Unadjusted Financial Information under U.S. GAAP | Adjustments | Adjusted financial information under the Company's policies |
| *US$'000* | *Audited* | *Unaudited* | *Unaudited* | *Audited* | *Unaudited* | *Unaudited* | *Audited* | *Unaudited* | *Unaudited* |
| ASSETS | | | | | | | | | |
| Current Assets | | | | | | | | | |
| Cash and cash equivalents | 23,745 | — | 23,745 | 75,358 | — | 75,358 | 30,901 | — | 30,901 |
| Term deposit | 79,958 | — | 79,958 | 5,802 | — | 5,802 | — | — | — |
| Restricted cash | 1,360 | — | 1,360 | 2,267 | — | 2,267 | 1,606 | — | 1,606 |
| Accounts receivable | 259 | — | 259 | 695 | — | 695 | 920 | — | 920 |
| Inventories | 7,081 | — | 7,081 | 9,845 | — | 9,845 | 11,261 | — | 11,261 |
| Prepaid expenses and other current assets | 8,890 | — | 8,890 | 5,189 | — | 5,189 | 5,053 | — | 5,053 |
| Total current assets | 121,293 | — | 121,293 | 99,156 | — | 99,156 | 49,741 | — | 49,741 |
| Property and equipment, net | 3,002 | — | 3,002 | 3,664 | — | 3,664 | 2,209 | — | 2,209 |
| Acquired intangible assets, net | 266 | — | 266 | 249 | — | 249 | 232 | — | 232 |
| Goodwill | 690 | — | 690 | 690 | — | 690 | 690 | — | 690 |
| Long-term rental deposit | 640 | — | 640 | 708 | — | 708 | 658 | — | 658 |
| Long-term investment | — | — | — | — | — | — | 1,963 | — | 1,963 |
| TOTAL ASSETS | 125,891 | — | 125,891 | 104,467 | — | 104,467 | 55,493 | — | 55,493 |
| LIABILITIES | | | | | | | | | |
| Current Liabilities | | | | | | | | | |
| Accounts payable | 18,677 | — | 18,677 | 25,236 | — | 25,236 | 29,351 | — | 29,351 |
| Advance from customers | 10,263 | — | 10,263 | 10,979 | — | 10,979 | 8,282 | — | 8,282 |
| Accrued expenses and other current liabilities | 15,560 | — | 15,560 | 25,069 | — | 25,069 | 19,983 | — | 19,983 |
| Total current liabilities | 44,500 | — | 44,500 | 61,284 | — | 61,284 | 57,616 | — | 57,616 |
| TOTAL LIABILITIES | 44,500 | — | 44,500 | 61,284 | — | 61,284 | 57,616 | — | 57,616 |

**Unaudited Adjusted Consolidated Balance Sheets under the Company's Policies — Continued**

| | | As of 31 December | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | 2013 | | | 2014 | | | 2015 | | |
| | | Unadjusted Financial Information under U.S. GAAP | Adjustments | Adjusted financial information under the Company's policies | Unadjusted Financial Information under U.S. GAAP | Adjustments | Adjusted financial information under the Company's policies | Unadjusted Financial Information under U.S. GAAP | Adjustments | Adjusted financial information under the Company's policies |
| *US$'000* | *Notes* | *Audited* | *Unaudited* | *Unaudited* | *Audited* | *Unaudited* | *Unaudited* | *Audited* | *Unaudited* | *Unaudited* |
| EQUITY (DEFICIT) | | | | | | | | | | |
| Ordinary shares | | 7 | — | 7 | 7 | — | 7 | 7 | — | 7 |
| Additional paid-in capital | *1,2,3* | 153,124 | 132,231 | 285,355 | 155,872 | 132,870 | 288,742 | 159,190 | 132,973 | 292,163 |
| Treasury shares, at cost | | — | — | — | (10,957) | — | (10,957) | (19,996) | — | (19,996) |
| Accumulated deficit | *1,2,3* | (71,621) | (132,231) | (203,852) | (101,608) | (132,870) | (234,478) | (141,015) | (132,973) | (273,988) |
| Accumulated other comprehensive loss | | (119) | — | (119) | (131) | — | (131) | (309) | — | (309) |
| TOTAL EQUITY (DEFICIT) | | 81,391 | — | 81,391 | 43,183 | — | 43,183 | (2,123) | — | (2,123) |
| TOTAL LIABILITIES AND EQUITY | | 125,891 | — | 125,891 | 104,467 | — | 104,467 | 55,493 | — | 55,493 |

*Note 1: Share-based Payments*

Under LITB's U.S. GAAP accounting policies, LITB has elected to recognize compensation expense using the straight-line method for all employee equity awards granted with graded vesting provided that the amount of compensation cost recognized at any date is at least equal to the portion of the grant-date value of the options that are vested at that date, over the requisite service period of the award, which is generally the vesting period of the award. According to IFRS 2:15, if the equity instruments granted do not vest until the counterparty completes a specified period of service, it is presumed that the service period equals the vesting period. The services are accounted for as they are rendered by the counterparty during the vesting period, with a corresponding increase in equity. For equity instruments vesting in instalments (graded vesting), under IFRS 2:IG 11, entities are required to treat each instalment as a separate share option grant because each instalment has a different vesting period and, therefore, the entities shall recognize the share-based compensation during the vesting period of each instalment of the share options granted instead of using the straight-line method for all instalments.

Had LITB adopted the Company's accounting policy, the impact of the adjustments on profit or loss for the years ended 31 December 2013, 2014 and 2015 and on the carrying amount of assets, liabilities and equity as at 31 December 2013, 2014 and 2015 would have been as follows:

| *US$'000* | **As at and for the Year ended 31 December 2013** *Unaudited* | **As at and for the Year ended 31 December 2014** *Unaudited* | **As at and for the Year ended 31 December 2015** *Unaudited* |
|---|---|---|---|
| Share-based Payments | | | |
| Increase of fulfillment | 22 | 102 | 205 |
| Increase of selling and marketing | 42 | 449 | 164 |
| (Decrease)Increase of general and administrative | (272) | 88 | (266) |
| Increase of accumulated deficit as at 1 January | 1,512 | 1,304 | 1,943 |
| Increase of additional paid in capital | (1,304) | (1,943) | (2,046) |

*Note 2: Preferred Shares*

Under U.S. GAAP, Series A and B convertible preferred shares are not redeemable at the option of the holder and are classified as permanent equity which are measured at issuance cost. Series C convertible redeemable preferred shares are not mandatorily redeemable but are redeemable at the option of the holder and are classified as mezzanine equity which are initially recognized them at issuance cost. Change in redemption value is recognized immediately as it occurs and adjusts the carrying amount of Series C convertible redeemable preferred shares to equal to the redemption value at the end of each reporting period as if it were the redemption date for the Series C convertible redeemable preferred shares. The change in redemption value is recorded against retained earnings, or in the absence of retained earnings, by charges against additional paid in capital. Once additional paid-in-capital has been exhausted, additional charges are recorded by increasing the accumulated deficit. In accordance with International Accounting Standard 32 Financial instruments ("IAS32") require the issuer of a financial instrument to classify the financial instrument as a financial liability or as equity. A financial instrument is to be classified as an equity instrument only if (a) the instrument includes no contractual obligation to settle the obligation in cash or another financial asset and (b) if the instrument will or may be settled in the issuer's own equity instruments, it is a derivative that will be settled only by the issuer exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments ("fix for fix criteria") are met. The Series A convertible preferred shares, Series B convertible preferred shares and Series C convertible redeemable preferred shares do not meet the fix for fix criteria and are designated as a financial liability at fair value through profit or loss ("FVTPL") on initial recognition. The Series A convertible preferred shares, Series B convertible preferred shares and Series C convertible redeemable preferred shares are measured at fair value with any gain or losses arising on re-measurement recognition in profit or loss subsequently.

Had LITB adopted the Company's accounting policy, the impact of the adjustments on profit or loss for the years ended 31 December 2013, 2014 and 2015 and on the carrying amount of assets, liabilities and equity as at 31 December 2013, 2014 and 2015 would have been as follows:

| *US$'000* | **As at and for the Year ended 31 December 2013** *Unaudited* | **As at and for the Year ended 31 December 2014** *Unaudited* | **As at and for the Year ended 31 December 2015** *Unaudited* |
|---|---|---|---|
| Preferred shares | | | |
| Increase of pre-tax impact on loss | 97 | — | — |
| Increase of accumulated deficit as at 1 January | 132,227 | 130,703 | 130,703 |
| Increase of additional paid in capital | (130,703) | (130,703) | (130,703) |
| Decrease of accretion for Series C convertible redeemable preferred shares | (1,621) | — | — |

*Note 3: Convertible notes*

Under U.S.GAAP, the convertible notes, for which the embedded conversion feature does not qualify for derivative treatment, are evaluated to determine if the effective or actual rate of conversion per the terms of the convertible note agreement is below market value. In these instances, the value of the beneficial conversion feature is determined as the intrinsic value of the conversion feature, of which is credited to additional paid-in-capital. The allocated value for the beneficial conversion feature is recorded in the financial statements as a debt discount from the face amount of the notes, which is then accreted to interest expense over the life of the related debt using the effective interest method. In accordance with IAS 32, the convertible notes has been designated as at FVTPL and initially recognized them at fair value at the date of issue. In subsequent periods, such convertible notes are measured at fair value with changes in fair value recognized in profit or loss.

Had LITB adopted the Company's accounting policy, the impact of the adjustments on profit or loss for the years ended 31 December 2013, 2014 and 2015 and on the carrying amount of assets, liabilities and equity as at 31 December 2013, 2014 and 2015 would have been as follows:

| *US$'000* | **As at and for the Year ended 31 December 2013**<br>*Unaudited* | **As at and for the Year ended 31 December 2014**<br>*Unaudited* | **As at and for the Year ended 31 December 2015**<br>*Unaudited* |
|---|---|---|---|
| Convertible notes | | | |
| Increase of pre-tax impact on loss | 299 | — | — |
| Increase of accumulated deficit as at 1 January | 587 | 224 | 224 |
| Increase of additional paid in capital | (224) | (224) | (224) |
| Decrease of interest expense | (662) | — | — |

## III. SUPPLEMENTAL FINANCIAL INFORMATION OF LITB

The Company sets out the following supplemental financial information of LITB, which was not included in LITB's Audited Consolidated Financial Statements showing the financial information for the three financial years ended 31 December 2013, 2014 and 2015.

### 1. Accounting Policies

The accounting policies LITB follows are described in Note 2 of the Audited Consolidated Financial Statements for the years ended 31 December 2013, 2014 and 2015 included within this circular. The information set out in this supplemental financial information has been prepared in accordance with LITB's accounting policies as set out in the 2015 Audited Consolidated Financial Statements.

### 2. Critical Accounting Estimates

Critical accounting estimates that apply to the years ended 31 December 2013, 2014 and 2015 are set out in the 2013, 2014 and 2015 Audited Consolidated Financial Statements included within this circular.

### 3. Aging Analysis of Accounts Receivable

Receivable terms are typically short period of time. Substantially all accounts receivable were current as of 31 December 2013, 2014 and 2015.

### 4. Aging Analysis of Accounts Payable

The average credit period on purchase of goods is relatively short period of time. LITB has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

### 5. Compensation of Director and Executive Officers

LITB provides all directors and executive officers with an aggregate cash compensation, pensions, retirements and other benefits excluding share-based compensation.

Director and executive officers of LITB earned the following benefits:

| *US$' millions* | **2013** | **2014** | **2015** | **Total** |
|---|---|---|---|---|
| Cash compensation and benefits | 1.64 | 1.10 | 1.10 | 3.84 |
| Pensions, retirement or other benefits | 0.10 | 0.90 | 0.10 | 1.10 |
| Total | 1.74 | 2.00 | 1.20 | 4.94 |

## 6. Share-based Payments

Please refer to Note 2 'Share-based compensation', Note 10, 'Share options' and Note 11, 'Nonvested shares' of LITB's 2015 Audited Consolidated Financial Statements for more information on share-based payments.

On October 27, 2008, LITB adopted the 2008 Share Incentive Option Plan ("the Plan") for the granting of share options to employees to reward them for services provided to LITB and to provide incentives for future services.

Pursuant to the Plan, total shares that the 2008 Plan was authorized to grant were 4,444,444 shares. In May 2014, LITB authorized the issuance of an additional 6,900,000 ordinary shares to support LITB's business expansion and recruiting plans. The majority of the options will vest over four years where 25% of the options will vest at the end of the first year after the grant date through the fourth year.

The following additional information summarize the principal terms of the Plan.

***Types of Awards and Exercise Prices.*** The Plan permits the grant of several kinds of awards, including among others, options, restricted shares, restricted share units, share appreciation rights and dividend equivalent rights.

***Plan Administration.*** The Plan administrator is the chairman of LITB's board or, in the case of administration with respect to directors and officers, a committee consisting of at least two non-employee directors designated by the board, and, with respect to consultants and other employees, a committee consisting of one or more directors of the company designated by the board.

The plan administrator designates the eligible optionees and determines the award type, award period, grant date, performance requirements and such other provisions and terms not inconsistent with the Plan in the award agreement.

***Award Agreement.*** Options and other awards granted under the Plan are and will be evidenced by an award agreement that sets forth the terms, provisions, limitations and performance requirements for each grant.

***Eligibility.*** At the discretion of the board of directors, LITB may grant awards to employees, officers, directors or consultants of LITB.

***Term of Awards.*** The term of each award shall be the term stated in the award agreement, provided that the term of an incentive share option shall be no more than ten years from the date of grant, subject to certain exceptions.

***Acceleration of Awards upon Corporate Transaction.*** The plan administrator may upon or in anticipation of a corporate transaction, accelerate awards or modify the terms of the awards.

***Vesting Schedule.*** The plan administrator may determine the vesting schedule and may provide additional vesting conditions in the award agreement to each optionee.

***Amendment and Termination.*** LITB's board of directors may at any time by resolutions amend, suspend or terminate the Plan, subject to certain exceptions. Unless earlier terminated by the board or directors, the Plan will terminate on October 26, 2018.

## 7. Auditor Remuneration

| *(US$'000)* | **Year ended 31 December 2013** | **Year ended 31 December 2014** | **Year ended 31 December 2015** |
|---|---|---|---|
| Audit Fees[1] | 972.8 | 701.0 | 670.0 |
| Audit-Related Fees[2] | — | — | — |
| Tax Fees | — | — | — |
| All Other Fees | — | — | — |
| **Total** | **972.8** | **701.0** | **670.0** |

1. “Audit fees” represent the aggregate fees billed for each of the fiscal years listed for professional services rendered by the principal auditors for the audit of the annual financial statements or services that are normally provided by the auditors in connection with statutory and regulatory filings or engagements.

2. “Audit-related fees” represent the aggregate fees billed in each of the fiscal years listed for assurance and related services by the principal auditors for services rendered that are reasonably related to the performance of the audit or review of the consolidated financial statements and are not reported under “Audit fees”. Services comprising the fees disclosed under the category of “Audit-related fees” involve principally limited reviews performed on the consolidated financial statements.

## INTRODUCTION

The accompanying unaudited pro forma consolidated statement of assets and liabilities as at 31 December 2015 of the Enlarged Group (collectively known as the "Unaudited Pro Forma Financial Information") has been prepared by the directors of the Company in accordance with paragraph 4.29 of the Listing Rules for the purpose of illustrating the effect of the major transaction in relation to the acquisition of 42,500,000 shares issued by LightInTheBox Holding Co., Ltd. (the "Target Company"), being 30% of the enlarged equity interest, and the warrant issued by the Target Company entitling the Group to subscribe up to 7,455,000 shares in the Target Company (the "Acquisition"), and the exercise of the warrant (the "Warrant Exercise"), on the consolidated financial position of the Group.

The Unaudited Pro Forma Financial Information of the Enlarged Group has been prepared based on the audited consolidated statement of financial position of the Group as at 31 December 2015, as extracted from the Group's published annual report for the year ended 31 December 2015 dated 31 March 2016, and the unaudited adjusted consolidated balance sheet of the Target Company and its consolidated subsidiaries, variable interest entities and their subsidiaries (collectively, the "Target Group") as at 31 December 2015 set out in Appendix II to this Circular, after giving effect to the pro forma adjustments relating to the Acquisition and the Warrant Exercise that are (i) clearly shown and explained; (ii) directly attributable to the Acquisition and the Warrant Exercise and not relating to future events or decisions; and (iii) factually supportable, as explained in the accompanying notes, as if the Acquisition and the Warrant Exercise had been completed on 31 December 2015.

The Unaudited Pro Forma Financial Information is based on a number of assumptions, estimates, uncertainties and currently available information to provide information of the Enlarged Group upon completion of the Acquisition and the Warrant Exercise. As the Unaudited Pro Forma Financial Information is prepared for illustrative purposes only, and because of its hypothetical nature, it may not give a true picture of the financial position of the Enlarged Group following the completion of the Acquisition and the Warrant Exercise, and does not purport to describe the actual financial position of the Enlarged Group that would have been attained had the Acquisition and the Warrant Exercise been completed on 31 December 2015. In addition, the accompanying Unaudited Pro Forma Financial Information of the Enlarged Group does not purport to predict the future financial position of the Enlarged Group after the completion of the Acquisition and the Warrant Exercise.

The Unaudited Pro Forma Financial Information of the Enlarged Group has been prepared in accordance with paragraphs 4.29 and 14.67(6)(ii) of the Listing Rules. The Unaudited Pro Forma Financial Information of the Enlarged Group should be read in conjunction with the financial information of the Group as set out in Appendix I to the Circular, the Financial Information of the Target Company as set out in Appendix II to the Circular and other financial information included elsewhere in the Circular.

## UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

| | The Group 31 December 2015 | Pro forma adjustment | Pro Forma Enlarged Group (assuming the Acquisition completion) | Pro Forma adjustment | Pro Forma Enlarged Group (assuming the Acquisition Completion and the Warrant Exercise) |
|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | *Note 1* | *Note 2* | | *Note 3* | |
| NON-CURRENT ASSETS | | | | | |
| Property, plant and equipment | 224,338 | | 224,338 | | 224,338 |
| Investment properties | 12,519,200 | | 12,519,200 | | 12,519,200 |
| Interests in joint ventures | 89,326 | | 89,326 | | 89,326 |
| Interests in an associate | — | 477,989 | 477,989 | 147,905 | 625,894 |
| Deferred tax assets | 202,504 | | 202,504 | | 202,504 |
| Long-term receivables | 208,659 | | 208,659 | | 208,659 |
| Total non-current assets | 13,244,027 | 477,989 | 13,722,016 | 147,905 | 13,869,921 |
| CURRENT ASSETS | | | | | |
| Financial assets held for trading | 1,083,176 | | 1,083,176 | | 1,083,176 |
| Derivative financial instruments | — | 14,454 | 14,454 | (14,454) | — |
| Properties under development | 4,010,176 | | 4,010,176 | | 4,010,176 |
| Completed properties held for sale | 3,736,630 | | 3,736,630 | | 3,736,630 |
| Current tax assets | 29,447 | | 29,447 | | 29,447 |
| Trade and other receivables, prepayments | 827,143 | | 827,143 | | 827,143 |
| Restricted cash | 441,650 | | 441,650 | | 441,650 |
| Cash and cash equivalents | 243,470 | | 243,470 | (133,451) | 110,019 |
| | 10,371,692 | 14,454 | 10,386,146 | (147,905) | 10,238,241 |
| Non-current assets classified as held for sale | 153,900 | | 153,900 | | 153,900 |
| Total current assets | 10,525,592 | 14,454 | 10,540,046 | (147,905) | 10,392,141 |

| | The Group 31 December 2015 | Pro forma adjustment | Pro Forma Enlarged Group (assuming the Acquisition completion) | Pro Forma adjustment | Pro Forma Enlarged Group (assuming the Acquisition Completion and the Warrant Exercise) |
|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | *Note 1* | *Note 2* | | *Note 3* | |
| CURRENT LIABILITIES | | | | | |
| Trade and other payables | 3,629,542 | | 3,629,542 | | 3,629,542 |
| Bank loans and loans from other financial institutions | 1,682,081 | 362,167 | 2,044,248 | | 2,044,248 |
| Loan from a shareholder | — | 130,276 | 130,276 | | 130,276 |
| Current taxation | 186,254 | | 186,254 | | 186,254 |
| Deferred income | 15,983 | | 15,983 | | 15,983 |
| | 5,513,860 | 492,443 | 6,006,303 | — | 6,006,303 |
| Liabilities directly associated with non-current assets classified as held for sale | 38,231 | | 38,231 | | 38,231 |
| Total current liabilities | 5,552,091 | 492,443 | 6,044,534 | — | 6,044,534 |
| NET CURRENT ASSETS | 4,973,501 | (477,989) | 4,495,512 | (147,905) | (4,347,607) |
| TOTAL ASSETS LESS CURRENT LIABILITIES | 18,217,528 | — | 18,217,528 | — | 18,217,528 |
| NON-CURRENT LIABILITIES | | | | | |
| Bank loans and loans from other financial institutions | 4,712,680 | | 4,712,680 | | 4,712,680 |
| Deferred income | 19,569 | | 19,569 | | 19,569 |
| Deferred tax liabilities | 3,174,748 | | 3,174,748 | | 3,174,748 |
| Total non-current liabilities | 7,906,997 | — | 7,906,997 | — | 7,906,997 |
| Net assets | 10,310,531 | — | 10,310,531 | — | 10,310,531 |
| EQUITY | | | | | |
| Equity attributable to equity shareholders of the Company | | | | | |
| Share capital | 29,727 | | 29,727 | | 29,727 |
| Reserves | 9,438,741 | | 9,438,741 | | 9,438,741 |
| | 9,468,468 | — | 9,468,468 | — | 9,468,468 |
| Non-controlling interests | 842,063 | | 842,063 | | 842,063 |
| Total Equity | 10,310,531 | — | 10,310,531 | — | 10,310,531 |

*Notes:*

(1) The balances are extracted from the audited consolidated statement of financial position of the Group as at 31 December 2015 included in the published annual report of the Group for the year ended 31 December 2015 dated 31 March 2016.

(2) The adjustment represents the effect of the acquisition (the "Acquisition") by the Group of 42,500,000 shares issued by the Target Company ("Subscription Shares"), being 30% of the enlarged equity interest, and the warrant issued by the Target Company entitling the Group to subscribe up to 7,455,000 shares ("Subscription Warrant"), pursuant to the subscription agreement entered into between the Group and the Target Company (the "Subscription Agreement"), for an aggregate consideration of US$75,600,000 (approximately RMB492,443,000), which had been settled by the Group through bank loans and loan from a shareholder.

The interests in an associate consist of the Group's share of net assets of the Target Group together with the goodwill arising from the Acquisition. For illustrative propose, the goodwill amount included therein is calculated based on the excess of the consideration paid, less the attributable fair value of the Subscription Warrant, over the Group's share of the adjusted net identifiable assets and liabilities of the Target Group, as follows:

| **Pro forma goodwill from the Acquisition:** | *Notes* | *RMB'000* | *RMB'000* |
|---|---|---|---|
| Consideration | *(i)* | | 492,443 |
| *Less:* Fair value of Subscription Warrant acquired by the Group | *(ii)* | | (14,454) |
| Investment cost in the Target Group | | | 477,989 |
| *Less:* Assumed fair value of the identifiable net liabilities of the Target Group | *(iii)* | (13,829) | |
| Proceeds from issuance of Subscription Shares and Subscription Warrant to the Group | *(iv)* | 492,443 | |
| Adjusted fair value of the identifiable net assets of the Target Group | | 478,614 | |
| 30% of the adjusted identified net assets of the Target Group | *(v)* | | (143,584) |
| Goodwill arising from the Acquisition | *(vi), (4)* | | 334,405 |

(i) The consideration of the Acquisition amounted to US$75,600,000 (approximately RMB492,443,000), is financed by secured bank borrowings of US$55,600,000 (approximately RMB362,167,000) and loan from a shareholder of US$20,000,000 (approximately RMB130,276,000). The consideration of the Acquisition is assumed to be approximate to its fair value.

(ii) Pursuant to the Subscription Agreement, the Target Company will issue Subscription Warrant entitling the Group to subscribe up to 7,455,000 shares of the Target Company in accordance with the terms of the Subscription Agreement. The fair value of the Subscription Warrant is estimated by the Directors to be US$2,219,000 (approximately RMB14,454,000), which is included in "Derivative Financial Instruments" in the Unaudited Pro Forma Financial Information of the Enlarged Group.

In the opinion of the Directors, the fair value of the Subscription Warrant is subject to change upon the completion of the Acquisition, as the fair value shall be assessed on the date of completion.

(iii) Since this Unaudited Pro Forma Financial Information is prepared solely for illustrative purpose, taking into consideration that the consolidated financial statements of the Target Group for the year ended 31 December 2015 had been audited, the Directors have assumed the fair values of the identifiable assets and liabilities of the Target Group to be their carrying amounts, as extracted from the Financial Information of the Target Company set out in Appendix II to this Circular.

In the opinion of the Directors, the fair values of the identifiable assets and liabilities of the Target Group are subject to change upon completion of the Acquisition, as the fair values of the assets and liabilities being acquired shall be assessed on the date of completion.

(iv) Pursuant to the Subscription Agreement, the Target Company will issue 42,500,000 Subscription Shares and Subscription Warrant to subscribe up to 7,455,000 shares of the Target Company for an aggregate consideration of US$75,600,000 (approximately RMB492,443,000), before expenses on issuance of new shares and Subscription Warrant.

(v) Upon completion of the Acquisition, the Group will hold an interest in 30% equity interest in the Target Company, resulting in 30% of the net assets of the Target Group being attributable to the Group.

(vi) Upon completion of the Acquisition, the goodwill amount and share of identifiable net assets of the Target Group will need to be recalculated based on the fair values of the identifiable assets and liabilities of the Target Group and the fair value of the Subscription Warrant at the date of completion. The actual financial effects are expected to be different from the amounts shown above.

(3) The adjustment is presented for illustrative purpose based on the assumption that the Subscription Warrant is exercised by the Group and 7,455,000 new shares in the Target Company are further subscribed, resulting in an additional 3.5% equity investment by the Group in the Target Company.

The additional interest in the associate comprises additional share of net assets of the Target Group and additional goodwill relating thereto, calculated based on the excess of the consideration paid for the exercise of the Subscription Warrant, plus the fair value of the Subscription Warrant, over the Group's additional share of the adjusted net identifiable assets and liabilities of the Target Group, as follows:

| **Pro forma goodwill from the exercise of the Subscription Warrant:** | *Notes* | *RMB'000* | *RMB'000* |
|---|---|---|---|
| Exercise price paid | *(i)* | | 133,451 |
| Fair value of Subscription Warrant acquired by the Group | *(ii)* | | 14,454 |
| Additional investment cost in the Target Group | | | 147,905 |
| *Less:* Assumed fair value of the identifiable net liabilities of the Target Group | *(iii)* | 478,614 | |
| Proceeds from exercise of the Subscription Warrant | *(iv)* | 133,451 | |
| Adjusted fair value of the identifiable net assets of the Target Group | | 612,065 | |
| 3.5% of the adjusted identified net assets of the Target Group | *(v)* | | (21,422) |
| Goodwill arising from the exercise of the Subscription Warrant | *(vi), (4)* | | 126,483 |

(i) The total exercise price of the Subscription Warrant amounted to US$20,487,500 (approximately RMB133,451,000), being 7,455,000 shares at the stipulated exercise price of US$2.75 each according to the terms of the Subscription Warrant.

(ii) The fair value of the Subscription Warrant, as detailed in note 2(ii) above, forms part of the additional investment cost in the Target Group upon exercise of the Subscription Warrant.

(iii) The assumed fair value of identifiable net assets of the Target Group after the issuance of the 42,500,000 Subscription Shares, as calculated in note 2 above.

(iv) Pursuant to the Subscription Agreement, the Target Company will issue 7,455,000 shares of the Target Company, upon the exercise of the Subscription Warrant, to the Group for an aggregate consideration of US$20,487,500 (approximately RMB133,451,000), before expenses on issuance of new shares.

(v) Upon exercise of the Subscription Warrant, the Group will hold an additional interest in 3.5% equity interest in the Target Company, resulting in an additional 3.5% of the net assets of the Target Group being attributable to the Group.

(vi) Upon exercise of the Subscription Warrant, the goodwill amount and share of identifiable net assets of the Target Group will need to be recalculated based on the fair values of the identifiable assets and liabilities of the Target Group and the fair value of the Subscription Warrant at the date of completion. The actual financial effects are expected to be different from the amounts shown above.

(4) In accordance with the Group's accounting policy, after initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

In the preparation of this Unaudited Pro Forma Financial Information of the Enlarged Group, the Directors had performed an impairment assessment of goodwill in accordance with IAS 36 *Impairment of Assets* and the Group's accounting policy. Based on the impairment test, the recoverable amount of the cash-generating unit in which the Target Group was assigned exceeds its carrying amount and accordingly, no pro forma adjustment in respect of goodwill impairment is made by the Directors in the Unaudited Pro Forma Financial Information for the Enlarged Group. Such assessment assumed that (i) there are no major material adverse changes in the fair values of the assets and liabilities; and (ii) the identifiable assets and liabilities can be realised at their book values. However, should there be any adverse changes to the business of the Target Group, including but not limited to, any subsequent adverse changes in the operation, impairment may be required to be recognised against the goodwill in accordance with IAS 36 and the Group's accounting policy.

The reporting accountants have conducted their engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 *Assurance Engagements to Report on the Compilation of Unaudited Pro Forma Financial Information Included in a Prospectus* and considered that the goodwill impairment test performed by the Directors is consistent with the Company's applicable financial reporting framework and its accounting policies under that framework. However, the reporting accountants did not perform an audit or review of the financial information used in the preparation of the goodwill impairment test prepared by the Directors.

The Directors confirmed that they will apply consistent accounting policies, principal assumptions and valuation method to assess impairment of the goodwill in subsequent reporting periods in accordance with the requirement of IAS 36. The auditors of the Company will audit and opine on the consolidated financial statements of the Company in accordance with Hong Kong Standards on Auditing.

## INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION

To the Directors of Zall Development Group Ltd.

We have completed our assurance engagement to report on the compilation of pro forma financial information of Zall Development Group Ltd. (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The pro forma financial information consists of the pro forma consolidated statement of assets and liabilities as at 31 December 2015, and related notes as set out on pages III-2 to III-7 in Appendix III of the circular dated 25 May 2016 issued by the Company (the "Circular") (the "Pro Forma Financial Information"). The applicable criteria on the basis of which the Directors have compiled the Pro Forma Financial Information are described in Appendix III of the Circular.

The Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the major transaction in relation to the acquisition of equity interest in and warrant issued by LightInTheBox Holding Co., Ltd., and the exercise of the warrant (the "Transaction") on the Group's assets and liabilities as at 31 December 2015 as if the Transaction had taken place at 31 December 2015. As part of this process, information about the Group's assets and liabilities have been extracted by the Directors from the Group's financial statements for the year ended 31 December 2015, on which an independent auditors' report has been published.

### Directors' responsibility for the Pro Forma Financial Information

The Directors are responsible for compiling the Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline ("AG") 7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

### Our independence and quality control

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

**Reporting accountants' responsibilities**

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus* issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Pro Forma Financial Information.

The purpose of the Pro Forma Financial Information included in the Circular is solely to illustrate the impact of the Translation on unadjusted financial information of the Group as if the Transaction had been undertaken at an earlier date selected for purpose of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Transaction would have been as presented.

A reasonable assurance engagement to report on whether the Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the Transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the Transaction in respect of which the Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Pro Forma Financial Information.

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

**Opinion**

In our opinion:

(a) the Pro Forma Financial Information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purpose of the Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,

*Certified Public Accountants*

Hong Kong
25 May 2016

## 1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this document misleading.

## 2. INTEREST OF DIRECTORS AND CHIEF EXECUTIVE IN THE GROUP

At the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have been taken under such provisions of the SFO); or were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or were required pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") to be notified to the Company and the Stock Exchange were as follows:

**Long positions in the Shares and underlying Shares of the Company**

| Name of Directors | Number of ordinary shares *(Note 1)* | Approximate percentage of the issued share capital of the Company *(Note 3)* |
|---|---|---|
| Yan Zhi | 8,114,946,000 | 75.52% |
| Yu Gang | 160,344,000 | 1.49% |
| Cui Jinfeng | 1,312,500 | 0.01% |

*Note 1:* 56,613,000 Shares are held directly by Mr. Yan Zhi and 8,058,333,000 Shares are held by Zall Development Investment Company Limited, a company which is wholly-owned by Mr. Yan Zhi.

*Note 2:* The percentage is calculated based on the total number of issued shares (i.e. 10,745,577,750 Shares) at the Latest Practicable Date.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interests and short positions in the Shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would be required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they would be taken or deemed to have under such provisions of the SFO), or (b) to be recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code.

## 3. SUBSTANTIAL SHAREHOLDERS' AND OTHER SHAREHOLDERS' INTERESTS

As at the Latest Practicable Date, save as disclosed below, so far as is known to the Directors or chief executive of the Company, none of the Directors is a director or employee of a company which has and no other person has an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group:

| Name | Nature of interest | Number of shares or underlying shares held | Percentage of shareholding[3] |
|---|---|---|---|
| Zall Development Investment Company Limited | Beneficial owner | 8,058,333,000 | 74.99% |
| Yan Zhi | Beneficial owner/Interest in a corporation | 8,114,946,000 [1] | 75.52% |
| Ji Changqun | Interest in a corporation | 949,224,000 [2] | 8.83% |
| Magnolia Wealth International Limited | Interest in a corporation | 949,224,000 [2] | 8.83% |
| Fullshare Holdings Limited | Interest in a corporation | 949,224,000 [2] | 8.83% |
| Rich Unicorn Holdings Limited | Beneficial owner | 949,224,000 [2] | 8.83% |

*Notes:*

(1) Zall Development Investment Company Limited is a company wholly-owned by Mr. Yan Zhi. In addition, 56,613,000 Shares are held directly by Mr. Yan Zhi as at the Latest Practicable Date.

(2) The 949,244,000 Shares are held by Rich Unicorn Holdings Limited, a company which is wholly-owned by Fullshare Holdings Limited, which in turn is owned as to 58.76% by Magnolia Wealth International Limited, which in turn is wholly-owned by Ji Changqun. Ji Changqun also directly owns 6% of Fullshare Holdings Limited.

(3) The percentage represents the number of ordinary shares interested divided by the number of the Company's issued shares as at the Latest Practicable Date.

## 4. INTERESTS OF DIRECTORS IN ASSETS/CONTRACTS AND OTHER INTERESTS

There is no contract or arrangement entered into by any member of the Group, subsisting as at the Latest Practicable Date in which any of the Directors is materially interested and which is significant in relation to the business of the Group as a whole.

As at the Latest Practicable Date, none of the Directors or their respective associates had any interest, direct or indirect, in any assets which has been, since 31 December 2015, being the latest published audited financial statements of the Company were made up, acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

## 5. INTEREST OF DIRECTORS IN COMPETING INTERESTS

As at the Latest Practicable Date, so far as the Directors were aware and save as disclosed in this circular, none of the Directors or their respective associates had any interest in a business which competes or may compete with the business of the Group, or has or may have any other conflicts of interest with the Group pursuant to Rule 8.10 of the Listing Rules.

## 6. MATERIAL LITIGATION

As at the Latest Practicable Date, there was no litigation or claim of material importance that is known to the Directors to be pending or threatened against the Company or any of its subsidiaries.

## 7. EXPERTS AND CONSENTS

The followings are the qualifications of the expert who has provided advice referred to or contained in this circular:

| Name | Qualification |
|---|---|
| Deloitte Touche Tohmatsu | Certified Public Accountants |
| Ernst & Young | Certified Public Accountants |

Each of Deloitte Touche Tohmatsu and Ernst & Young has given and has not withdrawn its written consent to the issue of this circular with copies of its letter or report (as the case may be) and the references to its name included herein the form and context in which they respectively appear.

## 8. EXPERTS' INTEREST

As at the Latest Practicable Date, each of Deloitte Touche Tohmatsu and Ernst & Young:

(a) did not have any shareholding interest in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any securities in any member of the Group; and

(b) was not interested, directly or indirectly, in any assets which have been acquired or disposed of by or leased to any member of the Group, or which are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2015 (being the date to which the latest published audited financial statements of the Company were made up).

## 9. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into, with any member of the Group, a service agreement which is not expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation).

## 10. MATERIAL CONTRACTS

The following contracts, not being contracts in the ordinary course of business, were entered into by the members of the Group within two years preceding the Latest Practicable Date and are or may be material:

(a) the Subscription Agreement;

(b) the Investor's Rights Agreement;

(c) the agreement entered into between Mr. Jiang Yong and Zall Interconnection (BVI) Limited (卓爾互聯(BVI)有限公司) dated 6 April 2016 in relation to the sale and purchase of 55% of the entire issued shares of JPL Investment Co., Limited, the details of which are set out in the Company's announcement dated 6 April 2016;

(d) the agreement entered into between Shenzhen Huixin Trading Limited* (深圳市匯欣貿易有限公司) and Shenzhen Qianhai Zall Tech Limited* (深圳市前海卓爾互聯科技有限公司) dated 6 April 2016 in relation to the sale and purchase of 3,335,200 shares in Sinocan International Technologies Co., Ltd (深圳市匯茂科技股份有限公司), the details of which are set out in the Company's announcement dated 6 April 2016;

(e) the subscription agreement entered into between Sinocan International Technologies Co., Ltd (深圳市匯茂科技股份有限公司) and Shenzhen Qianhai Zall Tech Limited* (深圳市前海卓爾互聯科技有限公司) dated 6 April 2016 in relation to the subscription of 12,000,000 shares in Sinocan International Technologies Co., Ltd (深圳市匯茂科技股份有限公司) by Shenzhen Qianhai Zall Tech Limited* (深圳市前海卓爾互聯科技有限公司), the details of which are set out in the Company's announcement dated 6 April 2016;

(f) the sale and purchase agreement dated 14 December 2015 entered into between the Zall Development (Wuhan) Co., Ltd.* (卓爾發展(武漢)有限公司) and Zall Holdings Company Limited (卓爾控股有限公司) in relation to the transfer of the entire equity interest in Wuhan Zall Professional Football Club Co., Ltd.* (武漢卓爾職業足球俱樂部有限公司), the details of which are set out in the Company's announcement dated 14 December 2015;

(g) the sale and purchase agreement dated 23 November 2015 entered into between Zall Development (HK) Holding Company Limited(卓爾發展(香港)控股有限公司) and Zall Property Investment Limited*(卓爾地產投資有限公司) in relation to the transfer of the 10% of the equity interest in Zall Development (Shenyang) Co., Ltd.*(卓爾發展(瀋陽)有限公司), the details of which are set out in the Company's announcement dated 23 November 2015;

(h) the sale and purchase agreement dated 23 November 2015 entered into between Zall Development (HK) Holding Company Limited(卓爾發展(香港)控股有限公司) and Zall Property Investment Limited*(卓爾地產投資有限公司) in relation to the transfer of the 10% of the equity interest in Zall Trading Development (Xiaogan) Co., Ltd.*(卓爾商貿發展(孝感)有限公司), the details of which are set out in the Company's announcement dated 23 November 2015;

(i) the agreement dated 6 August 2015 entered into between the Company and Dr. Yu Gang in connection with the subscription of 53,448,000 new Shares by Dr. Yu Gang, the details of which are set out in the Company's announcement dated 6 August 2015;

(j) the equity transfer agreement dated 2 July 2015 entered into between 福建縱橫投資實業集團有限公司(Fujian Zongheng Investment and Industry Co., Ltd.*) and 漢口北集團有限公司(North Hankou Corporation Limited*), in relation to the transfer of 50% of the equity interest in 武漢大世界投資發展有限公司(Wuhan Big World Investment Development Company Limited*), the details of which are set out in the Company's announcement dated 3 July 2015;

(k) the sale and purchase agreement dated 24 June 2015 entered into between Zall Development (HK) Holding Company Limited(卓爾發展(香港)控股有限公司) and Fullshare Holdings Limited in relation to the transfer of 90% of the equity interest in Zall Development (Shenyang) Co., Ltd.*(卓爾發展(瀋陽)有限公司), the details of which are set out in the Company's announcement dated 24 June 2015;

(l) the sale and purchase agreement dated 24 June 2015 entered into between Zall Development (HK) Holding Company Limited(卓爾發展(香港)控股有限公司) and Fullshare Holdings Limited in relation to the transfer of 90% of the equity interest in Zall Trading Development (Xiaogan) Co., Ltd.*(卓爾商貿發展(孝感)有限公司), the details of which are set out in the Company's announcement dated 24 June 2015;

(m) the sale and purchase agreement dated 22 October 2014 entered into among Zall Development (HK) Holding Company Limited (卓爾發展(香港)控股有限公司), Zall Commerce Investment Company Limited (卓爾發展商業投資有限公司) and Mr. Yan Zhi in relation to the transfer of equity interests in Zhen An Properties Limited (正安資產(開曼)實業股份有限公司*) and Zhen An (Wuhan) Company Limited* (正安實業(武漢)有限公司), the details of which are set out in the Company's announcement dated 22 October 2014; and

(n) the equity restructuring and swap agreement dated 22 October 2014 entered into between Zall Investment Group Company Limited* (卓爾投資集團有限公司) and Zall Holdings Company Limited* (卓爾控股有限公司) in relation to an equity swap arrangement, the details of which are set out in the Company's announcement dated 22 October 2014.

## 11. MISCELLANEOUS

(a) The registered office of the Company is Cricket Square, Hutchins Drive, P. O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

(b) The principal place of business of the Company in Hong Kong is at Suite 1606, 16/F, Two Exchange Square, Central, Hong Kong.

(c) The principal share registrar and transfer office of the Company is Royal Bank of Canada Trust Company (Cayman) Limited, 4th Floor, Royal Bank House, 24 Shedden Road, George Town Grand Cayman KY1-1110, Cayman Islands.

(d) The Hong Kong share registrar and transfer office of the Company is Tricor Investor Services Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.

(e) The company secretary of the Company is Mr. Ma Wing Ming, a member of the Hong Kong Institute of Certified Public Accountants.

(f) This circular is in both English and Chinese. In the event of inconsistency, the English text shall prevail over the Chinese text.

## 12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at Suite 1606, 16/F, Two Exchange Square, Central, Hong Kong for a period of 14 days from the date of this circular:

(a) the memorandum and articles of association of the Company;

(b) each of the material contracts referred to in the section headed "Material Contracts" in this appendix;

(c) the annual reports of the Company for the years ended 31 December 2013 to 2015;

(d) the Target Company Audited Accounts, the text of which is set out in Appendix II to this circular;

(e) the report on unaudited pro forma financial information of the Enlarged Group, the text of which is set out in Appendix III to this circular;

(f) the published annual reports of the Group for each of the financial years ended 31 December 2014 and 2015, respectively;

(g) the written consent of each of Deloitte Touche Tohmatsu and Ernst & Young referred to in paragraph headed "Experts and Consents" of this appendix;

(h) the shareholders' circular of the Company dated 20 April 2016 in relation to, among others, (1) proposed change of the Company's name, (2) renewal of general mandates to issue Shares and to buy back Shares, and (3) re-election of Directors; and

(i) this circular.