

Leju Holdings Ltd  
Form 20-F  
April 26, 2018  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**Form 20-F**

(Mark One)

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

or

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the fiscal year ended December 31, 2017.

or

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

or

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

Date of event requiring this shell company report . . . . .

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

Commission file number: 001-36396

## **Leju Holdings Limited**

(Exact name of Registrant as specified in its charter)

**N/A**

(Translation of Registrant's name into English)

**Cayman Islands**

(Jurisdiction of incorporation or organization)

**15/F Floor, Shoudong International Plaza, No. 5 Building, Guangqu Home**

**Dongcheng District, Beijing 100022**

**The People's Republic of China**

(Address of principal executive offices)

**Li-Lan Cheng, Chief Financial Officer**

**Leju Holdings Limited**

**15/F Floor, Shoudong International Plaza, No. 5 Building, Guangqu Home**

**Dongcheng District, Beijing 100022**

**People's Republic of China**

**Telephone: +86 10 5895 1180**

**Facsimile: +86 10 8722 4920**

(Name, Telephone, Email and/or Facsimile number and Address of Company Contact Person)

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

Title of each class	Name of each exchange on which registered
American Depositary Shares, each representing one ordinary share, par value \$0.001 per share	New York Stock Exchange
Ordinary shares, par value \$0.001 per share*	New York Stock Exchange

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\* Not for trading but only in connection with the listing on the New York Stock Exchange of American depositary shares

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

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**None**  
(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

**None**  
(Title of Class)

Indicate the number of outstanding shares of each of the Issuer's classes of capital or common stock as of the close of the period covered by the annual report.

135,763,962 ordinary shares (excluding the 4,205,458 ordinary shares issued to our depository bank for bulk issuance of ADSs reserved for future issuances upon the exercise or vesting of awards granted under our share incentive plan), par value \$0.001 per share, as of December 31, 2017.

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

Yes  No

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

Yes  No

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

Yes  No

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

Yes  No

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

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Large accelerated filer

Accelerated filer

Non-accelerated filer

Emerging growth company

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

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

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

U.S. GAAP

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

Other

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

Item 17  Item 18

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

Yes  No

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

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

Yes  No

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**INTRODUCTION**

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

- Leju , we , us , our company and our are to Leju Holdings Limited, its subsidiaries and its consolidated variable interest entities;
- ADSs are to our American depositary shares, each of which represents one ordinary share;
- Beijing Leju are to Beijing Yisheng Leju Information Services Co., Ltd.;
- Beijing Jiajujiu are to Beijing Jiajujiu E-Commerce Co., Ltd.;
- Beijing Maiteng are to Beijing Maiteng Fengshun Science and Technology Co., Ltd.;
- China or the PRC are to the People's Republic of China, excluding, for the purposes of this annual report only, Hong Kong, Macau and Taiwan;
- consolidated variable interest entity are to each of our consolidated variable interest entities, namely each of Beijing Leju, Shanghai Yi Xin and Beijing Jiajujiu;
- Exchange Act are to the Securities Exchange Act of 1934, as amended;
- E-House are to E-House (China) Holdings Limited, a Cayman Islands exempted company with limited liability, and its predecessor entities;

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- O2O services are to online to offline services, including in connection with the marketing of new residential properties by developers;
- ordinary shares to our ordinary shares, par value \$0.001 per share;
- RMB and Renminbi are to the legal currency of China;
- Shanghai SINA Leju are to Shanghai SINA Leju Information Technology Co., Ltd.;
- Shanghai Yi Xin are to Shanghai Yi Xin E-Commerce Co., Ltd.;
- Shanghai Yi Yue are to Shanghai Yi Yue Information Technology Co., Ltd.;
- SINA are to SINA Corporation;
- Tencent are to Tencent Holdings Limited or certain of its affiliates which have entered into agreements with us as described under Item 7. Major Shareholders and Related Party Transactions Related Party Transactions and Agreements with Tencent, as applicable; and
- U.S. dollars, \$, and dollars are to the legal currency of the United States.
- Weibo are to SINA's microblog.
- Weixin are to Tencent's social communication platform wechat.

### FORWARD-LOOKING STATEMENTS

This annual report on Form 20-F contains forward-looking statements that involve risks and uncertainties. All statements other than statements of historical facts are forward-looking statements. These statements involve known and unknown risks, uncertainties and other

factors that may cause our actual results, performance or achievements to be materially different from those expressed or implied by the forward-looking statements.



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You can identify these forward-looking statements by words or phrases such as may, will, expect, anticipate, aim, estimate, intend, probably, likely to or other similar expressions. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs. These forward-looking statements include:

- our anticipated growth strategies;
- our future business development, results of operations and financial condition;
- expected changes in our revenues and certain cost or expense items;
- our ability to attract clients and further enhance our brand recognition; and
- trends and competition in the real estate services industry.

You should read thoroughly this annual report and the documents that we refer to in this annual report with the understanding that our actual future results may be materially different from and worse than what we expect. We qualify all of our forward-looking statements by these cautionary statements. Other sections of this annual report include additional factors which could adversely impact our business and financial performance. Moreover, we operate in an evolving environment. New risk factors and uncertainties emerge from time to time and it is not possible for our management to predict all risk factors and uncertainties, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

You should not rely upon forward-looking statements as predictions of future events. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

**PART I**

**ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS**

Not applicable.

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

Not applicable.

**ITEM 3. KEY INFORMATION**

A. Selected Financial Data

**Selected Consolidated Financial Data**

The following selected consolidated statements of operations data for the years ended December 31, 2015, 2016 and 2017 and selected consolidated balance sheet data as of December 31, 2016 and 2017 have been derived from our audited consolidated financial statements included elsewhere in this annual report. The selected consolidated financial data should be read in conjunction with our audited consolidated financial statements and related notes and Item 5. Operating and Financial Review and Prospects in this annual report. Our consolidated financial statements are prepared and presented in accordance with U.S. GAAP.

Our selected consolidated statement of operations data for the fiscal years ended December 31, 2013 and 2014 and our consolidated balance sheet data as of December 31, 2013, 2014 and 2015 have been derived from our audited consolidated financial statements not included in this annual report.

Our selected consolidated financial data also includes certain non-GAAP measures, which are not required by, or presented in accordance with U.S. GAAP, but are included because we believe they are indicative of our operating performance and are used by investors and analysts to evaluate companies in our industry.

Our historical results do not necessarily indicate results expected for any future periods.

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	Year Ended December 31,				
	2013	2014	2015	2016	2017
	(in thousands of \$, except share and per share data)				
<b>Consolidated Statement of Operations Data</b>					
Revenues					
E-commerce	170,205	326,680	420,552	419,024	234,836
Online advertising	145,445	155,050	134,229	117,949	113,235
Listing	19,772	14,293	21,023	22,538	14,461
Total revenues	335,422	496,023	575,804	559,511	362,532
Cost of revenues	(63,991)	(51,130)	(60,314)	(57,492)	(74,054)
Selling, general and administrative expenses	(226,143)	(366,342)	(475,445)	(521,797)	(434,276)
Goodwill impairment					(41,223)
Other operating income	600	2,526	3,568	4,587	3,072
Income (loss) from operations	45,888	81,077	43,613	(15,191)	(183,949)
Income (loss) before income taxes and loss from equity in affiliates	45,785	82,429	45,341	(13,444)	(182,155)
Net income (loss)	42,650	66,659	34,806	(11,601)	(162,043)
Net income (loss) attributable to Leju Holdings Limited shareholders	42,525	66,521	35,330	(9,789)	(160,901)
Earnings (loss) per share:					
Basic	0.35	0.51	0.26	(0.07)	(1.19)
Diluted	0.35	0.50	0.26	(0.07)	(1.19)
Weighted average numbers of shares used in computation:					
Basic	120,000,000	129,320,666	134,528,971	135,220,210	135,708,350
Diluted	120,000,000	132,502,100	136,223,974	135,220,210	135,708,350

	As of December 31,				
	2013	2014	2015	2016	2017
	(in thousands of \$)				
<b>Consolidated Balance Sheet Data</b>					
Cash and cash equivalents	98,730	317,811	260,296	274,338	150,968
Accounts receivable, net of allowance for doubtful accounts	87,316	119,742	113,991	71,390	80,606
Total current assets	222,788	480,766	485,084	406,386	284,833
Intangible assets, net	128,530	105,419	90,737	78,374	70,631
Total assets	402,938	638,266	626,838	575,867	438,944
Amounts due to related parties	4,501	5,289	10,214	1,581	3,093
Total current liabilities	123,584	197,301	179,607	150,638	163,891
Total liabilities	151,148	223,342	202,605	169,507	181,907
Total Leju Holdings Limited shareholders equity	248,706	414,845	424,712	408,469	260,303

**Non-GAAP Financial Measures**

The following table sets forth, for the periods specified, our adjusted income (loss) from operations, our adjusted net income (loss), and our adjusted net income (loss) attributable to Leju Holdings Limited shareholders. We present these non-GAAP financial measures because they are used by our management to evaluate our operating performance, formulate business plans, and make strategic decisions on capital allocation. These non-GAAP financial measures enable our management to assess our operating results without considering the impact of non-cash charges,

including share-based compensation expense, amortization of intangible assets resulting from business combinations and goodwill impairment. We also believe they are indicative of our operating performance and are used by investors and analysts to evaluate companies in our industry. These non-GAAP measures of our performance are not required by, or presented in accordance with, U.S. GAAP. Such measures are not a measurement of financial performance or liquidity under U.S. GAAP and should not be considered as an alternative to income from operations, net income or any other performance measures derived in accordance with U.S. GAAP or an alternative to cash flows from operating activities as a measure of liquidity. Our presentation of such measures may not be comparable to similarly titled measures presented by other companies. You should not compare such measures as presented by us with the presentation of such measures by other companies because not all companies use the same definition.

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We define adjusted income (loss) from operations as income (loss) from operations before share-based compensation expense, amortization of intangible assets resulting from business combinations and goodwill impairment.

We define adjusted net income (loss) as net income (loss) before share-based compensation expense (net of tax), amortization of intangible assets resulting from business combinations (net of tax) and goodwill impairment (net of tax).

We define adjusted net income (loss) attributable to Leju Holdings Limited shareholders as net income (loss) before share-based compensation expense (net of tax and non-controlling interests), amortization of intangible assets resulting from business combinations (net of tax and non-controlling interests) and goodwill impairment (net of tax and non-controlling interests).

The use of the above non-GAAP financial measures has material limitations as an analytical tool, as they do not include all items that impact our income (loss) from operations, net income (loss), and net income (loss) attributable to Leju Holdings Limited shareholders for the period. We compensate for these limitations by providing the relevant disclosure of our share-based compensation expense, amortization of intangible assets resulting from business acquisitions and goodwill impairment in our reconciliations to the financial measures under U.S. GAAP, and in our consolidated financial statements, all of which should be considered when evaluating our performance.

The following table reconciles our adjusted income (loss) from operations, adjusted net income (loss) and adjusted net income (loss) attributable to Leju Holdings Limited shareholders in the periods presented to the most directly comparable financial measure calculated and presented in accordance with U.S. GAAP:

	2013	2014	Year Ended December 31, 2015 (in thousands of \$)	2016	2017
Income (loss) from operations	45,888	81,077	43,613	(15,191)	(183,949)
Share-based compensation expense(1)	6,311	11,311	12,585	11,910	3,525
Amortization of intangible assets resulting from business acquisitions	22,017	14,569	12,653	12,329	13,333
Goodwill impairment					41,223
<b>Adjusted income (loss) from operations</b>	<b>74,216</b>	<b>106,957</b>	<b>68,851</b>	<b>9,048</b>	<b>(125,868)</b>
Net income (loss)	42,650	66,659	34,806	(11,601)	(162,043)
Share-based compensation expense (net of tax)(1)	6,311	11,311	12,585	11,910	3,525
Amortization of intangible assets resulting from business acquisitions (net of tax)	14,482	12,957	9,490	8,057	11,189
Goodwill impairment (net of tax)					41,223
<b>Adjusted net income (loss)</b>	<b>63,443</b>	<b>90,927</b>	<b>56,881</b>	<b>8,366</b>	<b>(106,106)</b>
Net income (loss) attributable to Leju Holdings Limited shareholders	42,525	66,521	35,330	(9,789)	(160,901)
Share-based compensation expense (net of tax and non-controlling interests)(1)	6,311	11,311	12,576	11,877	3,491
Amortization of intangible assets resulting from business acquisitions (net of tax and non-controlling interests)	14,197	12,842	9,490	8,057	11,189
					41,223

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Goodwill impairment (net of tax and non-controlling interests)

<b>Adjusted net income (loss) attributable to Leju Holdings Limited shareholders</b>	<b>63,033</b>	<b>90,674</b>	<b>57,396</b>	<b>10,145</b>	<b>(104,998)</b>
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Note:

(1) Share-based compensation expense includes share-based compensation expenses recorded by us for our own plans and options granted to our employees under E-House's share incentive plan.

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Our reporting and financial statements are expressed in the U.S. dollar, which is our reporting currency. However, our business is conducted in China and substantially all of our revenues are denominated in Renminbi. This annual report contains translations of Renminbi amounts into U.S. dollars at specific rates solely for the convenience of the reader. The conversion of Renminbi into U.S. dollars in this annual report, for the amounts not otherwise recorded in our consolidated financial statements included elsewhere in this annual report, is based on the exchange rate set forth in the H.10 statistical release of the Board of Governors of the Federal Reserve System. Unless otherwise noted, all translations from Renminbi to U.S. dollars and from U.S. dollars to Renminbi in this annual report were made at a rate of RMB6.5063 to \$1.00, the exchange rate in effect on December 29, 2017. We make no representation that any Renminbi or U.S. dollar amounts could have been, or could be, converted into U.S. dollars or Renminbi, as the case may be, at any particular rate, at the rates stated below, or at all. The PRC government imposes control over its foreign currency reserves in part through direct regulation of the conversion of the Renminbi into foreign currencies and through restrictions on foreign trade. On April 20, 2018, the certified exchange rate was RMB6.2945 to \$1.00.

The following table sets forth information concerning exchange rates between the Renminbi and the U.S. dollar for the periods indicated. These rates are provided solely for your convenience and are not necessarily the exchange rates that we used in this annual report or will use in the preparation of our periodic reports or any other information to be provided to you. The source of these rates is the Federal Reserve Statistical Release.

	Period End	Exchange Rate		
		Average(1)	Low	High
(RMB per \$1.00)				
2013	6.0537	6.1412	6.2438	6.0537
2014	6.2046	6.1704	6.2591	6.0402
2015	6.4778	6.2869	6.4896	6.1870
2016	6.9430	6.6549	6.9580	6.4480
2017	6.5063	6.7350	6.9575	6.4773
October	6.6328	6.6254	6.6533	6.5712
November	6.6090	6.6200	6.6385	6.5967
December	6.5063	6.5932	6.6210	6.5063
2018				
January	6.2841	6.4233	6.5263	6.2841
February	6.3280	6.3183	6.3471	6.2649
March	6.2726	6.3174	6.3565	6.2685
April (through April 20, 2018)	6.2945	6.2859	6.3045	6.2655

Source: Federal Reserve Statistical Release

Note:

(1) Annual averages are calculated from month-end rates. Monthly averages are calculated using the average of the daily rates during the relevant period.

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.



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D. Risk Factors

**Risks Related to Our Business**

*Our business is susceptible to fluctuations in China's real estate industry, which may materially and adversely affect our results of operations.*

We conduct our real estate services business primarily in China. Our business depends substantially on conditions in China's real estate industry and more particularly on the volume of new property transactions in China. Demand for private residential real estate in China has grown rapidly in recent years but such growth is often coupled with volatility and fluctuations in real estate transaction volume and prices. Fluctuations of supply and demand in China's real estate industry are caused by economic, social, political and other factors. Over the years, governments at both national and local levels have announced and implemented various policies and measures aimed to regulate the real estate market, in some cases to stimulate further development and more purchase of residential real estate units and in other cases to restrict these activities from growing too rapidly. These measures can affect real estate buyers' eligibility to purchase additional units, their downpayment requirements and financing, as well as availability of land to developers and their ability to obtain financing. These measures have affected and continue to affect the conditions of China's real estate market and cause fluctuations in real estate pricing and transaction volume. See [Our business may be materially and adversely affected by government measures aimed at China's real estate industry](#). Furthermore, there may be situations in which China's real estate industry is so active that real estate developers see a reduced need for marketing initiatives and reduce their spending on such initiatives, which could potentially adversely affect our result of operations. To the extent fluctuations in China's real estate industry adversely affect spending on real estate marketing, our financial condition and results of operations may be materially and adversely affected.

*Our business may be materially and adversely affected by government measures aimed at China's real estate industry.*

The real estate industry in China is subject to government regulations, including measures that are intended to control real estate prices. The regulations at both central government level and local government level change from time to time, to either stimulate or depress the real estate market, and it is difficult to foresee the timing or direction of regulatory changes. In the fourth quarter of 2016, local governments in more than 20 cities issued notices to restrict purchases of houses, including Beijing, Shanghai, Shenzhen, Guangzhou and Tianjin. The restrictive measures include, but are not limited to, an adjustment to the percentage of required down payment, more restrictive eligibility requirement imposed on purchasers and a limit on the maximum number of houses one may purchase. During the first quarter of 2017, a new round of restrictive measures at national level has permeated into more than 30 cities, including both first-tier and second-tier cities. For example, first-tier cities such as Beijing and Guangzhou further increased the percentage of required down payment. Meanwhile, a number of second-tier cities such as Hangzhou, Fuzhou, Nanjing, Changsha and Shijiazhuang have set a series of restrictions, including the maximum number of houses one may purchase, the maximum amount of mortgage loan(s) one may borrow, and the percentage of required down payment. In 2017, local governments of both first-tier and second-tier cities have also promulgated various policies to impose restrictions or eligibility requirements on buyers purchasing real estate. It is uncertain for how long these measures will remain in effect, and whether the central or local governments will further tighten their policies or adopt new measures that are less restrictive. Frequent changes in government policies may also create uncertainty that could discourage investment in real estate. Our business may be materially and adversely affected as a result of decreased transaction volumes or real estate prices that may result from government policies.

*We may fail to compete effectively, which could significantly reduce our market share and materially and adversely affect our business, financial condition and results of operations.*

We face competition in each of our primary business activities. Our largest competitor at the national level is *fang.com*, formerly *soufun.com*, with which we compete on all of our business lines. We also face various other competitors with whom we may compete on one or more lines of business. For example, we compete with providers for online property listings, including *58.com*, which acquired *anjike.com* in 2015, and compete with mobile-based providers of news, such as *toutiao.com*, for our online advertising business. In addition, we have faced and may continue to face competition from regionally focused websites providing regional real estate listings together with localized services, such as *house365.com* in the Nanjing market. Our competitors may have more established brand names, larger visitor numbers and more extensive distribution channels than we do, either overall, or in specific regions in which we operate.

The business of providing online real estate services in China has become increasingly competitive. The barriers to entry for establishing internet-based businesses are low, thereby allowing new entrants to emerge rapidly. The new competitive landscape has placed additional demands on us to increase the amount of resources we provide to customers and increase the quality of our services in order to retain customers. As the online real estate services industry in China is constantly evolving, our current or future competitors may be able to better position themselves to attract funding and to compete as the industry matures.

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We also face competition from companies in other media that offer e-commerce, advertising, listing and similar services. Any of these competitors may offer products and services that provide significant advantages over those offered by us in terms of performance, price, scope, creativity or other advantages. These products and services may achieve greater market acceptance than our service offerings, and thus weaken our brand. Increased competition in the online real estate services industry in China could make it difficult for us to retain existing customers and attract new customers, and could lead to a reduction in our revenues or an increase in our costs and expenses to conduct business.

Any of our current or future competitors may also receive investments from or enter into other commercial or strategic relationships with larger, well-established and well-financed companies and obtain significantly greater financial, marketing and content licensing and development resources than us. Furthermore, some of our competitors receive support from local governments, which may place us at a disadvantage when competing with them in their local markets. We cannot assure you that we will be able to compete successfully against our current or future competitors. Any failure to compete effectively in the real estate internet services market in China would have a material adverse effect on our business, financial condition and results of operations.

***Failure to continue to develop and expand our content, service offerings and features, and to develop or incorporate the technologies that support them, could jeopardize our competitive position.***

As a company providing online services, we participate in an industry characterized by rapidly changing technology and new products and services. We rely in part on attracting customers to our platform by providing attractive and helpful content and tools on our websites and mobile devices to assist customers seeking to purchase residential properties and home furnishings. In addition, our ability to continue to generate and maintain online advertising service revenues depends on our ability to innovate. To remain competitive, we must continue to develop and expand our content and service offerings. We must also continue to enhance and improve the user interface, functionality and features of our websites and our mobile applications. These efforts may require us to develop internally, or to license, increasingly complex technologies. In addition, many of our competitors are continually introducing new internet-related products, services and technologies, which will require us to update or modify our own technology to keep pace. New internet-related products, services and technologies developed by competitors could render our products and services obsolete if we are unable to update or modify our own technology. Developing and integrating new products, services and technologies into our existing businesses could be expensive and time-consuming. Furthermore, such new features, functions and services may not achieve market acceptance or serve to enhance our brand loyalty. We may not succeed in incorporating new internet technologies, or, in order to do so, we may incur substantial expenses. If we fail to develop and introduce or acquire new features, functions, services or technologies effectively and on a timely basis, we may not continue to attract new users and may be unable to retain our existing users. If we are not successful in incorporating new internet technologies, our business, results of operations and growth prospects could be materially and adversely affected.

***Failure to attract and retain qualified personnel at a reasonable cost could jeopardize our competitive position.***

As our industry is characterized by high demand and intense competition for talent, we may need to offer higher compensation and other benefits in order to attract and retain quality sales, technical and other operational personnel in the future. We compete with other companies engaged in online real estate services and internet-related businesses and with print media for qualified personnel. We have, from time to time in the past, experienced, and we expect in the future to continue to experience, difficulty in hiring and retaining highly skilled employees with appropriate qualifications. There may be a limited supply of qualified individuals in some of the cities in China where we have operations and other cities into which we intend to expand. We must hire and train qualified managerial and other employees on a timely basis to keep pace with our rapid growth while maintaining consistent quality of services across our operations in various geographic locations. We must also provide continued training to our managerial and other employees so that they are equipped with up-to-date knowledge of various aspects of our operations and can meet our demand for high-quality services. If we fail to do so, the quality of our services may decline in one or more of the markets where we operate, which in turn, may cause a negative perception of our brand and adversely affect our business. We cannot assure you

we will be able to attract or retain the quality personnel that we need to achieve our business objectives.

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In addition, we place substantial reliance on the real estate industry experience and knowledge of our senior management team as well as their relationships with other industry participants. For example, Mr. Xin Zhou, our chairman, and Mr. Yinyu He, our chief executive officer, are both particularly important to our future success. We do not carry key person insurance on any member of our senior management team. The loss of one or more members of our senior management team could hinder our ability to effectively manage our business and implement our growth strategies. Finding suitable replacements for our current senior management could be difficult as competition for such talent is intense.

If we fail to successfully attract new personnel, retain and motivate our current personnel, or retain our senior management, we may lose competitiveness and our business and results of operations could be materially and adversely affected.

***Our business faces risks associated with the application of the e-commerce business model to the real estate industry and our new products and services may not perform as expected.***

Our e-commerce business was established in 2011 and experienced rapid growth to become an important part of our online real estate service operations. Although we generally have been able to effectively manage the growth of this product and maintain contractual arrangements with third-party property developers who allow us to sell discount coupons to prospective real estate purchasers on acceptable terms, there can be no assurance that we will continue to be able to do so in the future. Customer complaints or negative publicity about our services could diminish consumer confidence in and use of our services. We may also explore new real estate e-commerce products or other product offerings. Development of new products or initiatives may involve various risks and there can be no assurance that such products or initiatives may be successfully developed, will perform as expected, or be well-received by customers. Failure to successfully develop or launch new products could materially and adversely affect our business, results of operations and revenue growth prospects.

***We derive a substantial portion of our revenues from several major urban centers in China, and we face market risk due to our concentration in these major urban areas.***

We derive a substantial portion of our revenues from major urban centers in China, including Beijing, Shanghai, Guangzhou and Chongqing. In the year ended December 31, 2017, approximately 40% of our revenues was derived from Beijing, Shanghai, Guangzhou and Chongqing, and more than 10% of our total revenues were derived from Beijing. We expect these four urban centers to continue to be important sources of revenues. If any of these major urban centers experiences an event that negatively impacts the local real estate industry or online advertising, such as a serious economic downturn or contraction, a natural disaster, or slower growth due to adverse governmental policies or otherwise, demand for our services could decline significantly and our business and growth prospects could be materially and adversely impacted.

***A severe or prolonged downturn in the global or Chinese economy could materially and adversely affect our business and our financial condition.***

The global macroeconomic environment is facing challenges, including the end of quantitative easing by the U.S. Federal Reserve, the economic slowdown in the Eurozone since 2014 and the uncertain impact of Brexit. The growth of the Chinese economy has slowed since 2012 and such slowdown may continue. There is considerable uncertainty over the long-term effects of the expansionary monetary and fiscal policies adopted by the central banks and financial authorities of some of the world's leading economies, including the United States and China. There have been concerns over unrest and terrorist threats in the Middle East, Europe and Africa, which have resulted in volatility in oil and other markets. There

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have also been concerns on the relationship between China and other countries, including the surrounding Asian countries, which may potentially result in foreign investors exiting the China market and other economic effects. Economic conditions in China are sensitive to global economic conditions, as well as changes in domestic economic and political policies and the expected or perceived overall economic growth rate in China. The United States and China have recently been involved in controversy over trade barriers in China that threatened a trade war between the countries and have implemented or proposed to implement tariffs on certain imported products. Sustained tension between the United States and China over trade policies could significantly undermine the stability of the global and Chinese economy. Any severe or prolonged slowdown or instability in the global or Chinese economy may materially and adversely affect our business, results of operations and financial condition.

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***Failure to maintain or enhance our brands could have a material and adverse effect on our business and results of operations.***

We believe the Leju brand is associated with a leading real estate online platform in China, and it is important for the continued success of our business. The brand is integral to our sales and marketing efforts. Our continued success in maintaining and enhancing our brands and image depends to a large extent on our ability to satisfy customer needs by further developing and maintaining quality of services across our operations, as well as our ability to respond to competitive pressures.

***If we cannot manage our growth effectively and efficiently, our results of operations or profitability could be adversely affected.***

We intend to continue to grow our operations primarily in our current markets. This growth has placed, and will continue to place, substantial demands on our managerial, operational, technological and other resources. Our planned growth will also place significant demands on us to maintain the quality of our services. In order to manage and support our growth, we must continue to improve our existing operational, administrative and technological systems and our financial and management controls, and recruit, train and retain additional qualified real estate service professionals as well as other administrative and sales and marketing personnel, particularly as we expand into new markets. We may not be able to effectively and efficiently manage the growth of our operations, recruit and retain qualified personnel and integrate new expansion into our operations. As a result, our quality of service may deteriorate and our results of operations or profitability could be adversely affected.

***Our results of operations may fluctuate or otherwise be materially and adversely affected due to seasonal variations.***

Our operating income and earnings have historically been substantially lower during the first quarter than other quarters. The first quarter of each year generally contributes the smallest portion of our annual revenues due to reduced real estate transactions, advertising and marketing activities of our customers in the PRC real estate industry during and around the Chinese New Year holiday, which generally occurs in January or February of each year and due to the cold winter weather in northern China. In contrast, the third and fourth quarters of each year generally contribute a larger portion of our annual revenues due to increased real estate transactions, advertising and marketing activities during the months of September and October. For this reason, our results of operations may not be comparable from quarter to quarter.

***Unexpected network interruptions or security breaches, including hacking or computer virus attacks, may cause delays or interruptions of service, resulting in reduced use and performance of our websites and damage our reputation and brands.***

Our business depends heavily on the performance and reliability of China's internet infrastructure, the continued accessibility of bandwidth and servers on our service providers' networks and the continuing performance, reliability and availability of our technology platform. Any failure to maintain the satisfactory performance, reliability, security and availability of our computer and hardware systems may cause significant harm to our reputation and our ability to attract and maintain customers and visitor traffic. Major risks related to our network infrastructure include:

- any breakdown or system failure resulting in a sustained shutdown of our servers, including failures which may be attributable to sustained power shutdowns, or efforts to gain unauthorized access to our systems causing loss

or corruption of data or malfunctions of software or hardware;

- any disruption or failure in the national backbone network, which would prevent our customers and users from accessing our websites;
- any damage from fire, flood, earthquake and other natural disasters; and
- computer viruses, hackings and similar events.

Computer viruses and hackings may cause delays or other service interruptions and could result in significant damage to our hardware, software systems and databases, disruptions to our business activities, such as to our e-mail and other communication systems, breaches of security and inadvertent disclosure of confidential or sensitive information, inadvertent transmissions of computer viruses and interruptions of access to our websites through the use of denial-of-service or similar attacks. In addition, the inadvertent transmission of computer viruses could expose us to a material risk of loss or litigation and possible liability. We maintain most of our servers and backup servers in Beijing and Guangzhou, and all information on our websites is backed up weekly. Any hacking, security breach or other system disruption or failure that occurs in between our weekly backup procedures could disrupt our business or cause us to lose, and be unable to recover, data such as real estate listings, contact information and other important customer information.



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Ensuring secured transmission of confidential information through public networks is essential to maintaining the confidence of our customers and users. Our existing security measures may not be adequate to protect such confidential information. In addition, computer and network systems are susceptible to breaches by computer hackers. Security breaches could expose us to litigation and potential liability for failing to secure confidential customer information, and could harm our reputation and reduce our ability to attract customers and users. Future security breaches, if any, may result in a material adverse effect on our business, financial condition and results of operations.

We also do not maintain insurance policies covering losses relating to our systems and do not have business interruption insurance. Moreover, the low coverage limits of our property insurance policies may not be adequate to compensate us for all losses, particularly with respect to any loss of business and reputation that may occur. To improve our performance and to prevent disruption of our services, we may have to make substantial investments to deploy additional servers or create one or more copies of our websites to mirror our online resources, either of which could increase our expenses and reduce our net income.

***Any failure to protect our trademarks, copyrights and other intellectual property rights could have a negative impact on our business.***

We believe our trademarks, copyrights and other intellectual property rights are critical to our success. Any unauthorized use of our trademarks and other intellectual property rights could harm our business. Historically, China's track record for protection of intellectual property rights has been poor, and infringement of intellectual property rights continues to pose a serious risk of doing business in China. Monitoring and preventing unauthorized use is difficult and the measures we take to protect our intellectual property rights may not be adequate. We have registered the software copyrights of substantially all of our mobile applications and software copyrights are still enforceable absent registration in China, but registration by itself may not be adequate protection from potential misuse, infringement or other challenges from third parties claiming rights on our intellectual property.

Furthermore, the application of laws governing intellectual property rights in China and abroad is uncertain and evolving, and could expose us to risks. If we are unable to adequately protect our brand, trademarks and other intellectual property rights, we may lose these rights and our business may suffer materially. We typically impose contractual obligations on employees and consultants and have taken other precautionary measures to maintain the confidentiality of our proprietary information and restricted the use of the proprietary information other than for our company's benefit. However, if our employees and consultants do not honor their contractual obligations or misappropriate our database and other proprietary information, our business would suffer as a result.

As internet domain name rights are not rigorously regulated or enforced in China, other companies have incorporated in their domain names elements similar in writing or pronunciation to the Leju trademark or its Chinese equivalent. This may result in confusion between those companies and our company and may lead to the dilution of our brand value, which could adversely affect our business.

***We may be subject to intellectual property infringement or misappropriation claims by third parties, which may force us to incur substantial legal expenses and, if determined adversely against us, could materially disrupt our business.***

Some of our competitors may own copyrights, trademarks, trade secrets and internet content, which they may use to assert claims against us. We provide training to our staff with respect to procedures designed to reduce the likelihood that we may use, develop or make available any content or applications without the proper licenses or necessary third party consents. However, these procedures may not be effective in completely

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preventing the unauthorized posting or use of copyrighted material or the infringement of other rights of third parties.

The validity, enforceability and scope of protection of intellectual property rights in internet-related industries, particularly in China, is uncertain and still evolving. For example, as we face increasing competition and as litigation becomes a more common way to resolve disputes in China, we face a higher risk of being the subject of intellectual property infringement claims. Pursuant to relevant laws and regulations, internet service providers may be held liable for damages if such providers have reason to know that the works uploaded or linked infringe the copyrights of others. In cases involving the unauthorized posting of copyrighted content by users on websites in China, there have been court proceedings but no settled court practice as to when and how hosting providers and administrators of a website can be held liable for the unauthorized posting by third parties of copyrighted material. Any such proceeding could result in significant costs to us and divert our management's time and attention from the operation of our business, as well as potentially adversely impact our reputation, even if we are ultimately absolved of all liability.

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In addition, we cannot assure you that we will not become subject to intellectual property laws in other jurisdictions, such as the United States, by virtue of our ADSs being listed on the New York Stock Exchange, or NYSE, the ability of users to access, download and use our products and services in the United States and other jurisdictions, the ownership of our ADSs by investors in the United States and other jurisdictions, or the extraterritorial application of foreign law by foreign courts or otherwise, among other reasons. If a claim of infringement brought against us in the United States or other jurisdictions is successful, we may be required to pay substantial penalties or other damages and fines, remove relevant content or enter into license agreements which may not be available on commercially reasonable terms or at all. Even though the allegations or claims could be baseless, defense against any of these allegations or claims would be both costly and time-consuming and could significantly divert the efforts and resources of our management and other personnel.

***Regulation of the internet industry in China, including censorship of information distributed over the internet, may materially and adversely affect our business.***

China has enacted laws, rules and regulations governing internet access and the distribution of news, information or other content, as well as products and services, through the internet. In the past, the PRC government has prohibited the distribution of information through the internet that it deems to be in violation of applicable PRC laws, rules and regulations. In particular, under regulations promulgated by the State Council, the Ministry of Industry and Information Technology (formerly the Ministry of Information Industry), or MIIT, the General Administration of Press, Publication, Radio, Film and Television (established in March 2013 as a result of institutional reform integrating the former State Administration of Radio, Film and Television, and the former General Administration of Press and Publication), or GAPPRFT, and the Ministry of Culture, internet content providers and internet publishers are prohibited from posting or displaying content over the internet that, among other things: (i) opposes the fundamental principles of the PRC constitution; (ii) compromises state security, divulges state secrets, subverts state power or damages national unity; (iii) disseminates rumors, disturbs social order or disrupts social stability; (iv) propagates obscenity, pornography, gambling, violence, murder or fear or incites the commission of crimes; or (v) insults or slanders a third party or infringes upon the lawful right of a third party.

If any internet content we offer or will offer through our consolidated variable interest entities were deemed by the PRC government to violate any of such content restrictions, we would not be able to continue such offerings and could be subject to penalties, including confiscation of illegal revenues, fines, suspension of business and revocation of required licenses, which could have a material adverse effect on our business, financial condition and results of operations. We may also be subject to potential liability for any unlawful actions of our customers or affiliates or for content we distribute that is deemed inappropriate. It may be difficult to determine the type of content that may result in liability to us, and if we are found to be liable, we may be forced to cease operation of our websites in China.

***If we fail to obtain or keep licenses, permits or approvals applicable to the various online real estate services provided by us, we may incur significant financial penalties and other government sanctions.***

The internet and online advertising industries in China are highly regulated by the PRC government. Various regulatory authorities of the PRC government, such as the State Council, the MIIT, the State Administration of Industry and Commerce, or SAIC, the GAPPRFT, and the Ministry of Public Security, are empowered to issue and implement regulations governing various aspects of the internet and advertising industries. Moreover, new laws, rules and regulations may be adopted, or new interpretations of existing laws, rules and regulations may be released, to address issues that arise from time to time. As a result, substantial uncertainties exist regarding the interpretation and implementation of any current and future PRC laws, rules and regulations applicable to the internet and online advertising industries.



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Each of our consolidated variable interest entities, including Beijing Leju, Shanghai Yi Xin and Beijing Jiajuju, as well as their respective subsidiaries, is required to obtain and maintain a value-added telecommunications service operating license, or ICP license, from the MIIT or its local counterpart in order to provide internet information services and a business license from the SAIC or its local branches which specifically includes operating advertising business in order to engage in advertising activities in China, to the extent applicable to their respective business. Beijing Leju, Beijing Yisheng Leju Internet Technology Co., Ltd., a subsidiary of Beijing Jiajuju, and Shanghai Yi Xin, each hold a valid ICP license issued by the local provincial branch of the MIIT for the operation of our value-added telecommunication business. The business scope of the business licenses of Beijing Leju and its subsidiaries which engage in the advertising business includes operating advertising business. These licenses are essential to the operation of our online real estate business. The ICP licenses are subject to annual review by the relevant government authorities. The annual review of ICP licenses and business licenses is for the government authorities to conduct an annual inspection of the status of compliance of the license-holding entity. We have submitted the application documents for the annual review of the ICP licenses. At the time of and for the purpose of the annual review of these licenses, the relevant government authorities did not ask for disclosure of our full corporate structure and thus we did not provide such information. They have not so far expressed any opinion with respect to our corporate structure in connection with these annual reviews. Moreover, the regulations relating to ICP licenses also provide that an ICP license holder must first obtain approvals from, or make filings with, competent counterparts of the MIIT in connection with subsequent updates to its shareholding structure or certain other matters relating to such ICP license holder. We cannot assure you that we will be able to successfully pass the annual review of our ICP licenses, or complete the updating and renewal of the filing records of our ICP licenses with local MIIT counterparts on a timely basis.

In addition, Beijing Leju, Shanghai Yi Xin and/or Beijing Jiajuju and their respective subsidiaries may be required to obtain additional licenses. For example, the release, broadcasting and transmission of graphics, video and audio programs or weblinks to such programs, other websites or data on the websites may be deemed as providing internet publication services as well as transmission of video and audio programs on the internet, which could require internet publication licenses and licenses for online transmission of audio-visual programs. During operation of our e-commerce business, we post information, including graphics, weblinks to videos, live-broadcasting, other websites or data on websites operated by us. Our consolidated variable interest entities and their subsidiaries do not have internet publication licenses and licenses for online transmission of audio-visual programs, and are not applying for these licenses. For those video/audio programs and certain other forms of content that we believe are subject to the requirements of these licenses, such programs and content are hosted by SINA through our contractual arrangement with SINA. In the case that SINA does not possess the necessary licenses and permits, our video/audio programs and other content hosted by SINA are subject to the risk of being suspended by government authorities. Moreover, we cannot assure you that government would not require us to obtain these licenses separately for operation of our own websites and those websites licensed to us even if the underlying hosting of the relevant content may be provided by a qualified third party. If we are required to apply for such licenses, we can provide no assurance that we will procure and maintain such additional licenses.

Under applicable PRC laws, rules and regulations, the failure to obtain and/or maintain the licenses and permits required to conduct our business may subject our affected consolidated variable interest entities to various penalties, including confiscation of revenues, imposition of fines and/or restrictions on their business operations, or the discontinuation of their operations. Any such disruption in the business operations of our consolidated variable interest entities could materially and adversely affect our business, financial condition and results of operations.

***We are exposed to potential liability for information on our websites and for products and services sold over the internet and we may incur significant costs and damage to our reputation as a result of defending against such potential liability and could be subject to penalties or other severe consequences from PRC regulatory authorities as a result of such information.***

We provide third-party content on our websites such as real estate listings, contractor information listings, links to third-party websites, advertisements and content provided by customers and users of our community-oriented services. In addition, our website, *jiaju.com*, is a platform for third-party home furnishing distributors to offer their products and services to consumers. We could be exposed to liability with respect to such third-party information or the goods and services sold through our website. Among other things, we may face assertions that, by directly or indirectly providing such third-party content or links to other websites, we should be liable for defamation, negligence, copyright or trademark infringement, or other actions by parties providing such content or operating those websites. We may also face assertions that content

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on our websites, including statistics or other data we compile internally, or information contained in websites linked to our websites contains false information, errors or omissions, and users and our customers could seek damages for losses incurred as a result of their reliance upon or otherwise relating to incorrect information. We may also be subject to fines and other sanctions by the government for such incorrect information. Moreover, our relevant consolidated variable interest entities, as internet advertising service providers, are obligated under PRC laws and regulations to monitor the advertising content shown on our websites for compliance with applicable law. Violation of applicable law may result in penalties, including fines, confiscation of advertising fees, orders to cease dissemination of the offending advertisements and orders to publish advertisements correcting the misleading information. In case of serious violations, the PRC authorities may revoke the offending entities' advertising licenses and/or business licenses. In addition, our websites could be used as a platform for fraudulent transactions. The measures we take to guard against liability for third-party content or information may not be adequate to exonerate us from relevant civil and other liabilities. Any such claims, with or without merit, could be time-consuming to defend and result in litigation and significant diversion of management's attention and resources. Even if these claims do not result in liability to us, we could incur significant costs in investigating and defending against these claims and suffer damage to our reputation. Our general liability insurance may not cover all potential claims to which we are exposed to and may not be adequate to indemnify us for all liability that may be imposed.

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***Failure to maintain effective internal controls over financial reporting could cause us to inaccurately report our financial result or fail to prevent fraud and have a material and adverse effect on our business, results of operations and the trading price of our ADSs.***

We are subject to the reporting obligations under U.S. securities laws. Section 404 of the Sarbanes-Oxley Act of 2002 and related rules require public companies to include a report of management on their internal control over financial reporting in their annual reports. This report must contain an assessment by management of the effectiveness of a public company's internal control over financial reporting. We sometimes hire a professional consultant to assist us in such efforts. Our efforts to implement standardized internal control procedures and develop the internal tests necessary to verify the proper application of the internal control procedures and their effectiveness are a key area of focus for our board of directors, our audit committee and senior management.

We are an emerging growth company, as defined in the JOBS Act, and we may take advantage of certain exemptions from requirements applicable to other public companies that are not emerging growth companies including, most significantly, not being required to comply with the auditor attestation requirements of Section 404 for so long as we are an emerging growth company until the fifth anniversary from the date of our initial listing.

Our management has concluded that our internal control over financial reporting was effective as of December 31, 2017. See Item 15. Controls and Procedures. However, if we fail to maintain effective internal control over financial reporting in the future, our management and our independent registered public accounting firm may not be able to conclude that we have effective internal control over financial reporting at a reasonable assurance level. Moreover, effective internal controls over financial reporting are necessary for us to produce reliable financial reports and are important to help prevent fraud. As a result, our failure to achieve and maintain effective internal controls over financial reporting could in turn result in the loss of investor confidence in the reliability of our financial statements and negatively impact the trading price of our ADSs. Furthermore, we have incurred and anticipate that we will continue to incur considerable costs, management time and other resources in an effort to continue to comply with Section 404 and other requirements of the Sarbanes-Oxley Act.

***Increases in labor costs in China may adversely affect our business and our profitability.***

China's economy has experienced increases in labor costs in recent years. China's overall economy and the average wage in China are expected to continue to grow. The average wage level for our employees has also increased in recent years. We expect that our labor costs, including wages and employee benefits, will continue to increase. Unless we are able to pass on these increased labor costs to our customers by increasing prices for our products or services, our profitability and results of operations may be materially and adversely affected.

In addition, we have been subject to regulatory requirements in terms of entering into labor contracts with our employees and paying various statutory employee benefits, including pensions, housing fund, medical insurance, work-related injury insurance, unemployment insurance and childbearing insurance to designated government agencies for the benefit of our employees. Pursuant to the PRC Labor Contract Law and its implementation rules, employers are subject to requirements in terms of signing labor contracts, minimum wages, paying remuneration, determining the term of employees' probation and unilaterally terminating labor contracts. In the event that we decide to terminate some of our employees or otherwise change our employment or labor practices, the PRC Labor Contract Law and its implementation rules may limit our ability to effect those changes in a desirable or cost-effective manner, which could adversely affect our business and results of operations. Besides, pursuant to the PRC Labor Contract Law, dispatched employees are intended to be a supplementary form of employment and the fundamental form should be direct employment by enterprises and organizations that require employees. Further, it is expressly stated in the Interim Provisions on Labor Dispatch that the number of seconded employees an employer uses may not exceed 10% of its total labor force and the employer has a two-year transition period to comply with such requirement. Some of our PRC subsidiaries, consolidated variable interest

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entities and their subsidiaries use seconded employees for their principal business activities. The transition period ended on February 29, 2016, and those PRC subsidiaries, consolidated variable interest entities and their subsidiaries have completed reducing the percentage of seconded employees to less than 10% as required. If the relevant PRC companies are deemed to have violated the limitation on the use of seconded employees under the relevant labor laws and regulations, we may be subject to fines and incur other costs to make required changes to our current employment practices.



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As the interpretation and implementation of labor-related laws and regulations are still evolving, we cannot assure you that our employment practice does not and will not violate labor-related laws and regulations in China, which may subject us to labor disputes or government investigations. If we are deemed to have violated relevant labor laws and regulations, we could be required to provide additional compensation to our employees and our business, financial condition and results of operations could be materially and adversely affected.

***The successful operation of our business depends upon the performance and reliability of the internet infrastructure and telecommunications networks in China.***

Our business depends on the performance and reliability of the internet infrastructure in China. Substantially all access to the internet is maintained through state-controlled telecommunication operators under the administrative control and regulatory supervision of the MIIT. In addition, the national networks in China are connected to the internet through international gateways controlled by the PRC government. These international gateways are generally the only websites through which a domestic user can connect to the internet. We cannot assure you that a more sophisticated internet infrastructure will be developed in China. We may not have access to alternative networks in the event of disruptions, failures or other problems with China's internet infrastructure. In addition, the internet infrastructure in China may not support the demands associated with continued growth in internet usage.

We also rely on China Unicom and China Telecom to provide us with data communications capacity primarily through local telecommunications lines and internet data centers to host our servers. We do not have access to alternative services in the event of disruptions, failures or other problems with the fixed telecommunications networks of China Unicom or China Telecom, or if China Unicom or China Telecom otherwise fails to provide such services. Any unscheduled service interruption could disrupt our operations, damage our reputation and result in a decrease in our revenues. Furthermore, we have no control over the costs of the services provided by China Unicom and China Telecom. If the prices that we pay for telecommunications and internet services rise significantly, our gross margins could be significantly reduced. In addition, if internet access fees or other charges to internet users increase, our user traffic may decrease, which in turn may cause our revenues to decline.

***Any natural or other disasters, including outbreaks of health epidemics, and other extraordinary events could severely disrupt our business operations.***

Our operations are vulnerable to interruption and damage from natural and other types of disasters, including earthquakes, fire, floods, environmental accidents, power loss, communication failures and similar events. If any natural disaster or other extraordinary events were to occur in the area where we operate, our ability to operate our business could be seriously impaired. Our business could also be materially and adversely affected by the outbreak of health epidemics, including H7N9 bird flu, H1N1 swine influenza, avian influenza, severe acute respiratory syndrome, or SARS, Ebola or another epidemic. Any such occurrence in China could severely disrupt our business operations and adversely affect our results of operations.

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*Potential strategic investments, acquisitions or new business initiatives may disrupt our ability to manage our business effectively.*

Strategic investments, acquisitions or new business initiatives and any subsequent integration of new companies or businesses will require significant attention from our management, in particular to ensure that such changes do not disrupt any existing collaborations, or affect our users' opinion and perception of our services and customer support. In addition, in the case of acquisitions or new business initiatives our management will need to ensure that the acquired or new business is effectively integrated into our existing operations. The diversion of our management's attention and any difficulties encountered in integration could have a material adverse effect on our ability to manage our business. In addition, strategic investments, acquisitions or new business initiatives could expose us to potential risks, including:

- risks associated with the assimilation of new operations, services, technologies and personnel;
- unforeseen or hidden liabilities;
- the diversion of resources from our existing businesses and technologies;
- the inability to generate sufficient revenues to offset the costs and expenses of the transaction; and
- potential loss of, or harm to, relationships with employees, customers and users as a result of the integration of new businesses or investment.

*Certain of our leased office premises contain defects in the leasehold interests and if we are forced to relocate operations affected by such defects, our operations may be adversely affected.*

As of December 31, 2017, we had leased 88 office premises in 53 cities in China, in addition to a branch office in Hong Kong and our principal executive offices in Beijing, China. A number of these leased properties contain defects in the leasehold interests. Such defects include the lack of proper title or right to lease with respect to 30 leased premises and the landlords' failure to duly register the leases with the relevant PRC government authority with respect to 81 leased premises.

Under PRC regulations, in situations where a tenant lacks evidence of the landlord's title or right to lease, the relevant lease agreement may not be valid or enforceable and may also be subject to challenge by third parties. In addition, under PRC laws and regulations, while the failure to register the lease agreement does not affect its effectiveness between the tenant and the landlord, such lease agreement may be subject to challenge by and unenforceable against a third party who leases the same property from the landlord and the lease agreement entered into by such third party has been duly registered with the competent PRC government authority. This risk may be mitigated if we continue to occupy the

leased premises under our lease. Furthermore, the landlord and the tenant may be subject to administrative fines for such failure to register the lease.

We have taken steps to cause our landlords to procure valid evidence as to the title or right to lease, as well as to complete the lease registration procedures. However, we cannot assure you that such defects will be cured in a timely manner or at all. Our operations may be interrupted and additional relocation costs may be incurred if we are required to relocate operations affected by such defects.

***We have limited business insurance coverage.***

The insurance industry in China is still at an early stage of development and PRC insurance companies offer only limited business insurance products. As a result, we do not have any business disruption insurance or litigation insurance coverage for our operations in China. Any business disruption, litigation or natural disaster may cause us to incur substantial costs and result in the diversion of our resources, as well as significantly disrupt our operations, and have a material adverse effect on our business, financial position and results of operations.

**Risks Related to Our Relationships with E-House and SINA**

***We rely on E-House for a broad range of support and there can be no assurance that E-House will continue to provide the same level of support.***

On August 12, 2016, E-House Merger Sub Ltd. (a wholly owned subsidiary of E-House Holdings Ltd., or Parent) merged with and into E-House, with E-House continuing as the surviving company and a wholly owned subsidiary of Parent. Parent is a Cayman Islands company jointly established by Mr. Xin Zhou, SINA and certain other persons, and controlled by Mr. Zhou. On December 30, 2016, Parent repurchased all the ordinary shares held by SINA in Parent, for the aggregate consideration comprised of 40,651,187 ordinary shares of Leju and a cash payment of \$129,038,150. As a result of the foregoing transactions, E-House is no longer our controlling shareholder but has remained a principal shareholder of ours, and SINA has become a principal shareholder of ours.

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E-House has provided us with accounting, administrative, marketing, internal control and legal support, and has also provided us with the services of a number of its executives and employees. To the extent E-House does not continue to provide us with these support services on satisfactory terms or at all, we will need to provide such services on our own. For example, with respect to our sales of discount coupons for property developments in Beijing, for regulatory reasons the fees for such discount coupons are collected by E-House on our behalf and either remitted to us or used to offset amounts owed by us to E-House. In the past, E-House has not charged any fee or commission for its provision of this service to us. There can be no assurance that E-House will not charge a fee or commission for this service, or any similar service that E-House may provide to us in the future. We may encounter operational, administrative and strategic difficulties as we adjust to providing these support services on our own, which may cause us to react slower than our competitors to industry changes, may divert our management's attention from running our business or may otherwise harm our operations.

***Our historical financial information included in this annual report may not be representative of our financial condition and results of operations as a stand-alone public company.***

Our consolidated financial statements for periods prior to our initial public offering in April 2014 have been prepared on a carve-out basis. We made numerous estimates, assumptions and allocations in our financial information because E-House did not account for us, and we did not operate, as a separate, stand-alone company for any period prior to the completion of our initial public offering.

Prior to the establishment of our holding company in November 2013, the operations of the online real estate business of E-House were carried out by various companies owned or controlled by E-House. For periods both before and after November 2013, our consolidated financial statements include the assets, liabilities, revenues, expenses and changes in shareholders' equity and cash flows that were directly attributable to our real estate online services whether held or incurred by E-House or by us. In cases involving assets and liabilities not specifically identifiable to any particular operation of E-House, only those assets and liabilities transferred to us are included in our consolidated balance sheets. Our financial statements included elsewhere in this annual report include our direct expenses as well as allocations for various selling, general and administrative expenses of E-House that are not directly related to online services. These expenses consist primarily of share-based compensation expenses and shared marketing and management expenses including accounting, administrative, marketing, internal control and legal support. These allocations were made using a proportional cost allocation method and were based on revenues and headcount as well as estimates of actual time spent on the provision of services attributable to our Company. Although our management believes that the assumptions underlying our financial statements and the above allocations are reasonable, our financial statements may not necessarily reflect our results of operations, financial position and cash flows as if we had operated as a stand-alone public company during the periods presented. See Item 4. Information on the Company A. History and Development of the Company Our Relationship with E-House for our arrangements with E-House and Item 5. Operating and Financial Review and Prospects and the notes to our consolidated financial statements included elsewhere in this annual report for our historical cost allocation. Since our initial public offering, we no longer undertake allocation of any selling, general and administrative expenses of E-House, because E-House, pursuant to the offshore and onshore transitional services agreements entered into in March 2014 in connection with our initial public offering, has been charging us service fees for providing corporate support in accounting, administration, marketing, internal control, legal and customer service. Our financial information included in this annual report may not reflect our results of operations, financial position and cash flows as a stand-alone public company, and you should not view our historical results as indicators of our future performance.

Although we have entered into a series of agreements with E-House relating to our ongoing business partnership and service arrangements with E-House, we cannot assure you we will continue to receive the same level of support from E-House, especially after E-House ceased to be our controlling shareholder. Any of the foregoing could materially and adversely affect our business.

***Our agreements with E-House may be less favorable to us than similar agreements negotiated between unaffiliated third parties. In particular, our non-competition agreement with E-House limits the scope of business that we are allowed to conduct.***

We have entered into a series of agreements with E-House prior to our initial public offering in April 2014 and the terms of such agreements may be less favorable to us than would be the case if they were negotiated with unaffiliated third parties. In particular, under the non-competition agreement we have entered into with E-House, we have agreed during a specified non-competition period not to compete with E-House in any business conducted by E-House as described in its periodic filings with the SEC, other than the provision of real estate e-commerce, online advertising and listing services we have been engaged in. Such contractual limitations restrict our ability to diversify our revenue sources. In addition, pursuant to our master transaction agreement with E-House, we have agreed to indemnify E-House for, among other things, liabilities arising from litigation and other contingencies related to our business and assumed these liabilities as part of our carve-out from E-House. The allocation of assets and liabilities between E-House and us may not reflect the allocation that would have been reached by two unaffiliated parties. Moreover, so long as E-House continues to be our principal shareholder, we may not be able to bring a legal claim against E-House in the event of contractual breach, notwithstanding our contractual rights under the agreements described above and other inter-company agreements entered into from time to time.

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***We derive a significant amount of revenue from our operation of SINA websites and there can be no assurance that our relationship with SINA will continue on satisfactory terms.***

Through an agreement in 2009 entered into between SINA and E-House, we own SINA's real estate operations. To a large extent, the operations and revenues of our business rely on SINA's cooperation with us. The domain names of some major websites of our business are owned by SINA and licensed to us through agreements which we initially entered into with SINA in 2009 with terms through 2019 and which we amended and restated in 2014 to extend through 2024. A significant number of users of these websites are linked through other SINA websites. Pursuant to an advertising inventory agency agreement with SINA, we are the exclusive agent of SINA for selling advertising to the real estate advertisers through 2024. To a certain extent, we rely on SINA's continued cooperation on an ongoing basis to enjoy our rights pursuant to our agreements with SINA. SINA could at any time reduce its support for our business. In addition, SINA's dual role as our principal shareholder and contractual counterparty could result in conflicts of interest. If for any reason SINA does not fulfill its obligations in accordance with the advertising inventory agency agreement or any of the other agreements or otherwise reduces its support for our online real estate operations, our business may be materially and adversely affected.

***Any negative development with respect to E-House or SINA may materially and adversely affect our business and brand.***

We had been controlled by E-House until December 2016, and E-House is still our principal shareholder. We have benefited significantly from E-House in marketing our services, including providing services to E-House's clients. Our business and brand continue to be closely connected with those of E-House. We derive a significant amount of revenue from our operation of SINA websites, and SINA has become a principal shareholder of ours. The success of the websites we operate on the platform of SINA is also dependent on the brands and images of SINA. If either E-House or SINA loses its market position or suffers any negative publicity, it could have an adverse impact on our business, our marketing efforts, our relationships with strategic partners and customers, our reputation and brand.

***We may have conflicts of interest with E-House and, because of E-House's principal ownership interest in our company, may not be able to resolve such conflicts on favorable terms for us.***

Conflicts of interest may arise between E-House and us in a number of areas relating to our past and ongoing relationships. Potential conflicts of interest include the following:

- ***Indemnification arrangements with E-House.*** We have agreed to indemnify E-House with respect to lawsuits and other matters relating to our real estate online services business, including operations of that business when it was a business unit of E-House. These indemnification arrangements could result in our having interests that are adverse to those of E-House, for example, different interests with respect to settlement arrangements in a litigation matter. In addition, under these arrangements, we have agreed to reimburse E-House for liabilities incurred (including legal defense costs) in connection with any litigation, while E-House will be the party prosecuting or defending the litigation.

- *Non-competition arrangements with E-House.* We and E-House have each agreed not to compete in each other's core business. E-House has agreed not to compete with us in the business of providing real estate e-commerce, online advertising and listing services anywhere in the world. We have agreed not to compete with E-House in any other business conducted by E-House as described in its periodic filings with the SEC, other than the business we are engaged in as described in the prospectus of our initial public offering.

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- *Employee recruiting and retention.* Because both we and E-House are engaged in real estate services in China, we may compete with E-house in the hiring of new employees, in particular with respect to real estate information and research. We have a non-solicitation arrangement with E-House that would restrict either E-House or us from hiring any of the other s employees.
- *Our board members or executive officers may have conflicts of interest.* Mr. Xin Zhou, our chairman, is currently also serving as E-House s chairman and chief executive officer. Some of our board members and executive officers are also board members and executive officers of E-House and/or also own shares or options in E-House. E-House may continue to grant incentive share compensation to our board members and executive officers from time to time. These relationships could create, or appear to create, conflicts of interest when these persons are faced with decisions with potentially different implications for E-House and us.
- *Sale of shares in our company.* E-House may decide to further sell or otherwise dispose of all or a portion of our shares that it holds to a third party, including to one of our competitors, thereby giving that third party substantial influence over our business and our affairs. Such a sale could be contrary to the interests of certain of our shareholders, including our employees or our public shareholders.
- *Allocation of business opportunities.* Business opportunities may arise that both we and E-House find attractive, and which would complement our respective businesses. E-House may decide to take the opportunities itself, which would prevent us from taking advantage of the opportunity.
- *Developing business relationships with E-House s competitors.* So long as E-House remains our principal shareholder, we may be limited in our ability to do business with its competitors, such as other real estate services companies in China or other companies with which E-House does not want to conduct business. This may limit our ability to market our services for the best interest of our company and our other shareholders.

Although E-House is no longer our controlling shareholder, it remains a principal shareholder and continues to have significant influence on us. E-House may from time to time make strategic decisions that it believes are in the best interests of its business and its shareholders. These decisions may be different from the decisions that we would have made on our own. E-House s decisions with respect to us or our business may be resolved in ways that favor E-House and therefore E-House s own shareholders, which may not coincide with the interests of our other shareholders. We may not be able to resolve any potential conflicts, and even if we do so, the resolution may be less favorable to us than if we were dealing with an unaffiliated shareholder. Even if both parties seek to transact business on terms intended to approximate those that could have been achieved among unaffiliated parties, this may not succeed in practice.

**Risks Related to Our Corporate Structure**



*If the PRC government finds that the agreements that establish the structure for operating our advertising services business and real estate online business in China do not comply with PRC governmental restrictions on foreign investment in the advertising industry or the internet information service industry, we could be subject to severe penalties.*

Leju Holdings Limited is a Cayman Islands company and a foreign person under PRC law. Due to PRC government restrictions on foreign investment in the internet industry and the uncertainty over administrative practice in advertising industries, we conduct part of our business through contractual arrangements with our affiliated PRC entities. Our e-commerce business with respect to new residential properties is operated through our contractual arrangements with Shanghai Yi Xin and its shareholders. Our e-commerce business with respect to home furnishing is operated through our contractual arrangements with Beijing Jiajuju and its shareholders. Our online advertising business for new residential properties websites and our secondary listings business are operated through our contractual arrangements with Beijing Leju and its shareholders. Beijing Leju and its subsidiaries, Shanghai Yi Xin, and Beijing Jiajuju and its subsidiaries and branches hold the licenses and approvals that are essential for our business operations.

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We have entered into, through our PRC subsidiaries, Shanghai SINA Leju, Shanghai Yi Yue and Beijing Maiteng, a series of contractual arrangements with Beijing Leju, Shanghai Yi Xin, Beijing Jiajujiu and their respective shareholders. These contractual arrangements enable us to (i) direct the activities that most significantly affect the economic performance of Beijing Leju, Shanghai Yi Xin, Beijing Jiajujiu and their subsidiaries and branches; (ii) receive substantially all of the economic benefits from the three consolidated variable interest entities and their subsidiaries in consideration for the services provided by our PRC subsidiaries; and (iii) have an exclusive option to purchase all or part of the equity interests in the consolidated variable interest entities, when and to the extent permitted by PRC law, or request any existing shareholder of the consolidated variable interest entities to transfer all or part of the equity interest in the consolidated variable interest entities to another PRC person or entity designated by us at any time in our discretion. These agreements make us their primary beneficiary for accounting purposes under U.S. GAAP. For descriptions of these contractual arrangements, see Item 4. Information on the Company C. Organizational Structure .

If the PRC government finds that these contractual arrangements do not comply with its restrictions on foreign investment in the internet business or advertising industry, or if the PRC government otherwise finds that we, Beijing Leju, Shanghai Yi Xin or Beijing Jiajujiu, or any of their subsidiaries and branches is in violation of PRC laws or regulations or lack the necessary permits or licenses to operate our business, the relevant PRC regulatory authorities, including the State Administration for Industry and Commerce, which regulates advertising companies, and the MIIT, which regulates internet information service companies, would have broad discretion in dealing with such violations, including:

- revoking our business and operating licenses;
- discontinuing or restricting our operations;
- imposing fines or confiscating any of our income that they deem to have been obtained through illegal operations;
- imposing conditions or requirements with which we or our PRC subsidiaries and affiliates may not be able to comply;
- requiring us or our PRC subsidiaries and affiliates to restructure the relevant ownership structure or operations; or
- taking other regulatory or enforcement actions that could be harmful to our business.

The imposition of any of these penalties could have a material and adverse effect on our business, financial condition and results of operations. If any of these penalties results in our inability to direct the activities of any of Beijing Leju, Shanghai Yi Xin or Beijing Jiajujiu that most significantly impact its economic performance, and/or our failure to receive the economic benefits from any of Beijing Leju, Shanghai Yi Xin or Beijing Jiajujiu, we may not be able to consolidate the entity in our consolidated financial statements in accordance with U.S. GAAP.

*We rely on contractual arrangements with Beijing Leju, Shanghai Yi Xin and Beijing Jiajujiu and their respective shareholders for a portion of our operations, which may not be as effective as direct ownership in providing operational control.*

We rely on contractual arrangements with Beijing Leju, Shanghai Yi Xin and Beijing Jiajujiu and their respective shareholders to operate our online real estate business. For descriptions of these contractual arrangements, see Item 4. Information on the Company C. Organizational Structure . These contractual arrangements may not be as effective as direct ownership in providing us with control over Beijing Leju, Shanghai Yi Xin or Beijing Jiajujiu. These contractual arrangements are governed by PRC law and provide for the resolution of disputes through arbitration in China. Accordingly, these contracts would be interpreted in accordance with PRC law and any disputes would be resolved in accordance with PRC legal procedures. If any of the other parties fails to perform their obligations under these contractual arrangements, we may have to incur substantial costs and resources to enforce such arrangements, and we would have to rely on legal remedies under PRC law, including seeking specific performance or injunctive relief and claiming damages, which we cannot assure you will be effective. Furthermore, the legal environment in China is not as developed as in other jurisdictions, such as the United States. As a result, uncertainties in the PRC legal system could limit our ability to enforce these contractual arrangements, which may make it difficult to exert effective control over Beijing Leju, Shanghai Yi Xin and Beijing Jiajujiu, and our ability to conduct our business may be negatively affected.

In 2015, 2016 and 2017, Beijing Leju, Shanghai Yi Xin, Beijing Jiajujiu and their respective subsidiaries and branches contributed in aggregate 97.0%, 96.7% and 98.7% of our total net revenues, respectively. In the event we are unable to enforce the contractual arrangements, we may not be able to have the power to direct the activities that most significantly affect the economic performance of Beijing Leju, Shanghai Yi Xin, Beijing Jiajujiu and their respective subsidiaries and branches, and our ability to conduct our business may be negatively affected, and we may not be able to consolidate the financial results of Beijing Leju, Shanghai Yi Xin, Beijing Jiajujiu and their respective subsidiaries and branches into our consolidated financial statements in accordance with U.S. GAAP.

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***The shareholders of our consolidated variable interest entities may have potential conflicts of interest with us, and if any such conflicts of interest are not resolved in our favor, our business may be materially and adversely affected.***

We have designated individuals who are PRC nationals to be the shareholders of our consolidated variable interest entities in China. These individuals may have conflicts of interest with us. We cannot assure you that when conflicts of interest arise, they will act in the best interests of our company or that conflicts of interests will be resolved in our favor. In addition, they may breach or cause our variable interest entities and their subsidiaries to breach or refuse to renew the existing contractual arrangements that allow us to effectively control our consolidated variable interest entities and their subsidiaries and receive economic benefits from them. Currently, we do not have arrangements to address potential conflicts of interest between the shareholders of our consolidated variable interest entities and our company. We rely on them to abide by the laws of the Cayman Islands and China, which provide that directors and/or officers owe a fiduciary duty to our company, which requires them to act in good faith and in the best interests of our company and not to use their positions for personal gain. If we cannot resolve any potential conflicts of interest or disputes between us and the individual shareholders of our consolidated variable interest entities which may arise, we would have to rely on legal proceedings to enforce our rights, which could be costly and unsuccessful.

***Our ability to enforce the equity pledge agreements between us and the shareholders of Beijing Leju, Shanghai Yi Xin or Beijing Jiajujiu may be subject to limitations based on PRC laws and regulations.***

Pursuant to the equity pledge agreements relating to our consolidated variable interest entities, Beijing Leju, Shanghai Yi Xin and Beijing Jiajujiu, the shareholders of the consolidated variable interest entities pledge their equity interest in the consolidated variable interest entities to our subsidiaries to secure their and the relevant consolidated variable interest entities' performance of the obligations under the relevant contractual arrangements. The equity pledges under these equity pledge agreements have been registered with the relevant local branch of the State Administration for Industry and Commerce. According to the PRC Property Law and PRC Guarantee Law, the pledgee and the pledgor are prohibited from making an agreement prior to the expiration of the debt performance period to transfer the ownership of the pledged equity to the pledgee when the obligor fails to pay the debt due. However, under the PRC Property Law, when an obligor fails to pay its debt when due, the pledgee may choose to either conclude an agreement with the pledgor to obtain the pledged equity or seek payments from the proceeds of the auction or sell-off of the pledged equity. If any of the consolidated variable interest entities or its shareholders fails to perform its obligations secured by the pledges under the equity pledge agreements, one remedy in the event of default under the agreements is to require the pledgor to sell the equity interests in the relevant consolidated variable interest entity in an auction or private sale and remit the proceeds to our subsidiaries in China, net of related taxes and expenses. Such an auction or private sale may not result in our receipt of the full value of the equity interests in the relevant consolidated variable interest entity. We consider it very unlikely that the public auction process would be undertaken since, in an event of default, our preferred approach would be to ask our PRC subsidiary that is a party to the exclusive call option agreement with the consolidated variable interest entity's shareholder, to designate another PRC person or entity to acquire the equity interest in the consolidated variable interest entity and replace the existing shareholder pursuant to the exclusive call option agreement.

In addition, in the registration forms of the local branch of State Administration for Industry and Commerce for the pledges over the equity interests under the equity pledge agreements, the amount of registered equity interests pledged to our PRC subsidiaries was stated as the pledgor's portion of the registered capital of the consolidated variable interest entity. The equity pledge agreements with the shareholders of the consolidated variable interest entities provide that the pledged equity interest constitutes continuing security for any and all of the indebtedness, obligations and liabilities under the relevant contractual arrangements, and therefore the scope of pledge should not be limited by the amount of the registered capital of the consolidated variable interest entities. However, there is no guarantee that a PRC court will not take the position that the amount listed on the equity pledge registration forms represents the full amount of the collateral that has been registered and perfected. If this is the case, the obligations that are supposed to be secured in the equity pledge agreements in excess of the amount listed on the equity pledge registration forms could be determined by the PRC court to be unsecured debt, which takes last priority among creditors and often does not have to be paid back at all. We do not have agreements that pledge the assets of the consolidated variable interest entities and their subsidiaries for the benefit of us or our PRC subsidiaries, although the consolidated variable interest entities grant our PRC subsidiaries options to purchase the assets of the consolidated variable interest entities and their equity interests in their subsidiaries under the exclusive call option agreement.



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***Contractual arrangements we have entered into with Beijing Leju, Shanghai Yi Xin and Beijing Jiajujiu may be subject to scrutiny by the PRC tax authorities and a finding that we, Beijing Leju, Shanghai Yi Xin or Beijing Jiajujiu owe additional taxes could reduce our net income and the value of your investment.***

Under PRC laws and regulations, arrangements and transactions among related parties may be audited or challenged by the PRC tax authorities. We could face material and adverse consequences if the PRC tax authorities determine that the contractual arrangements we have entered into with Beijing Leju, Shanghai Yi Xin or Beijing Jiajujiu do not represent an arm's-length price and adjust the taxable income of Beijing Leju, Shanghai Yi Xin, Beijing Jiajujiu or their subsidiaries and branches in the form of a transfer pricing adjustment. A transfer pricing adjustment could, among other things, result in a reduction of expense deductions recorded by Beijing Leju, Shanghai Yi Xin, Beijing Jiajujiu or their subsidiaries and branches, which could in turn increase their PRC tax liabilities. In addition, the PRC tax authorities may impose late payment fees and other penalties on our consolidated variable interest entities for underpayment of taxes. Our consolidated net income may be materially and adversely affected if our consolidated variable interest entities' tax liabilities increase or if they are found to be subject to late payment fees or other penalties.

**Risks Related to Doing Business in China**

***Changes in PRC government policies could have a material and adverse effect on overall economic growth in China, which could adversely affect our business.***

We conduct substantially all of our business in China. As the real estate industry is highly sensitive to business spending, credit conditions and personal discretionary spending levels, it tends to decline during general economic downturns. Accordingly, our results of operations, financial condition and prospects are subject, to a significant degree, to economic developments in China. While China's economy has experienced significant growth in the past three decades, growth has been uneven across different periods, regions and among various economic sectors of China. The PRC government may implement measures that are intended to benefit the overall economy even if they would be expected to have a negative effect on the real estate industry. The real estate industry is also sensitive to credit policies. In recent years, the PRC government adjusted the People's Bank of China's statutory deposit reserve ratio and benchmark interest rates several times in response to various economic situations. Any future monetary tightening may reduce the overall liquidity in the economy and reduce the amount of credit available for real estate purchase. Higher interest rates may increase borrowing costs for purchasers who rely on mortgage loans to finance their real estate purchase. These could negatively affect overall demand for real estate and adversely affect our operating and financial results. We cannot assure you that China will continue to have rapid or stable economic growth in the future or that changes in credit or other government policies that are intended to create stable economic growth will not adversely impact the real estate industry.

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

We conduct our business primarily through our subsidiaries and consolidated variable interest entities in China. Our operations in China are governed by PRC laws and regulations. Our subsidiaries are generally subject to laws and regulations applicable to foreign investments in China and, in particular, laws applicable to foreign-invested enterprises. The PRC legal system is based on written statutes. Prior court decisions may be cited for reference but have limited precedential value. PRC legislation and regulations have gradually enhanced the protections afforded to various forms of foreign investments in China. However, China has not developed a fully integrated legal system and recently enacted laws and regulations may not sufficiently cover all aspects of economic activities in China. In particular, because these laws and regulations are relatively new, the interpretation and enforcement of these laws and regulations involve uncertainties. In addition, any litigation in China may be protracted and result in substantial costs and diversion of resources and management attention.



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***Substantial uncertainties exist with respect to the enactment timetable, interpretation and implementation of draft PRC Foreign Investment Law and how it may impact the viability of our current corporate structure, corporate governance and business operations.***

The PRC Ministry of Commerce, or MOC, published a discussion draft of the proposed Foreign Investment Law in January 2015 aiming to, upon its enactment, replace the trio of existing laws regulating foreign investment in China, namely, the Sino-foreign Equity Joint Venture Enterprise Law, the Sino-foreign Cooperative Joint Venture Enterprise Law and the Wholly Foreign-invested Enterprise Law, together with their implementation rules and ancillary regulations. The draft Foreign Investment Law embodies an expected PRC regulatory trend to rationalize its foreign investment regulatory regime in line with prevailing international practice and the legislative efforts to unify the corporate legal requirements for both foreign and domestic investments. While the MOC solicited comments on this draft, substantial uncertainties exist with respect to its enactment timetable, interpretation and implementation. The draft Foreign Investment Law, if enacted as proposed, may materially impact the viability of our current corporate structure, corporate governance and business operations in many aspects.

Among other things, the draft Foreign Investment Law expands the definition of foreign investment and introduces the principle of actual control in determining whether a company is considered a foreign-invested enterprise. The draft specifically provides that entities established in China but controlled by foreign investors will be treated as foreign-invested enterprises, whereas an entity set up in a foreign jurisdiction would nonetheless be, upon market entry clearance by the MOC, treated as a PRC domestic investor provided that the entity is controlled by PRC entities and/or citizens. In this connection, control is broadly defined in the draft law to cover the following summarized categories: (i) holding 50% or more of the voting rights or similar equity interest of the subject entity; (ii) holding less than 50% of the voting rights or similar equity interest of the subject entity but having the power to secure at least 50% of the seats on the board or other equivalent decision making bodies, or having the voting power to exert material influence on the board, the shareholders meeting or other equivalent decision making bodies; or (iii) having the power to exert decisive influence, via contractual or trust arrangements, over the subject entity's operations, financial matters or other key aspects of business operations. Once an entity is determined to be a foreign-invested enterprise and its investment amount exceeds certain thresholds or its business operation falls within a negative list, to be separately issued by the State Council in the future, market entry clearance by the MOC or its local counterparts will be required. Otherwise, all foreign investors may make investments on the same terms as domestic investors without being subject to additional approval from the government authorities as mandated by the existing foreign investment legal regime.

The variable interest entity structure, or VIE structure, has been adopted by many PRC-based companies, including us, to obtain necessary licenses and permits in the industries that are currently subject to foreign investment restrictions in China. See Risks Related to Our Corporate Structure. Under the draft Foreign Investment Law, variable interest entities that are controlled via contractual arrangement would also be deemed as foreign-invested enterprises, if they are ultimately controlled by foreign investors. Therefore, for any companies with a VIE structure in an industry category that is on the negative list, the VIE structure may be deemed legitimate only if the ultimate controlling person(s) is/are of PRC nationality (either PRC state-owned enterprises or agencies or PRC citizens). Conversely, if the actual controlling person(s) is/are of foreign nationalities, then the variable interest entities will be treated as foreign-invested enterprises and any operation in the industry category on the negative list without market entry clearance may be considered as illegal.

E-House, SINA and Tencent, each a principal shareholder of ours, held an aggregate of approximately 82% of our voting power, and our record shareholders in the United States held approximately 13% of our total voting power, as of March 31, 2018. The draft Foreign Investment Law has not taken a position on what actions will be taken with respect to the existing companies with a VIE structure, whether or not these companies are controlled by PRC parties, while it solicited comments from the public on this point. Moreover, it is uncertain whether the real estate service industry, in which our variable interest entities operate, will be subject to the foreign investment restrictions or prohibitions set forth in the negative list to be issued. If the enacted version of the Foreign Investment Law and the final negative list mandate further actions, such as MOC market entry clearance or certain restructuring of our corporate structure and operations, to be completed by companies with existing VIE structure like us, we face substantial uncertainties as to whether these actions can be timely completed, or at all, and our business and financial condition may be materially and adversely affected.





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

***Governmental control of currency conversion may affect the value of your investment.***

The PRC government imposes controls on the convertibility of the Renminbi into foreign currencies and, in certain cases, the remittance of currency out of China. Restrictions on currency exchanges between the Renminbi and other currencies may limit our ability to utilize our revenues and funds, in particular in relation to capital account transactions such as investments and loans. We receive substantially all of our revenues in Renminbi. Under our current structure, our income will be primarily derived from dividend payments from our PRC subsidiaries. Shortages in the availability of foreign currency may restrict the ability of our PRC subsidiaries and our consolidated variable interest entities to remit sufficient foreign currency to pay dividends or other payments to us, or otherwise satisfy their foreign currency denominated obligations.

Under current PRC regulations, the Renminbi is convertible for current account transactions, which include among other things dividend payments and payments for the import of goods and services, subject to compliance with certain procedural requirements. Although the Renminbi has been fully convertible for current account transactions since 1996, we cannot assure you that the relevant PRC government authorities will not limit or eliminate our ability to purchase and retain foreign currencies for current account transactions in the future.

Conversion of the Renminbi into foreign currencies and of foreign currencies into the Renminbi, for payments relating to capital account transactions, which principally include investments and loans, generally requires the approval of the State Administration of Foreign Exchange, or SAFE, and other relevant PRC governmental authorities.

In response to the persistent capital outflow from China and the depreciation of Renminbi against U.S. dollar in the fourth quarter of 2016, the People's Bank of China and SAFE have implemented a series of capital control measures over recent months, including stricter vetting procedures for PRC-based companies' outbound remittance of foreign currency for overseas acquisitions, dividend payments and shareholder loan repayments. For instance, on January 26, 2017, SAFE issued the a SAFE Circular 3, which stipulates several capital control measures on the outbound remittance of profit from domestic entities to offshore entities, including: (i) under the principle of genuine transaction, banks must check board resolutions regarding profit distribution, original version of tax filing records and audited financial statements; and (ii) domestic entities must hold income to account for previous years' losses before remitting the profits. The PRC government may continue to strengthen its capital controls, and SAFE may adopt more restrictions and substantial vetting processes for both current account and capital account cross-border transactions. Restrictions on the convertibility of the Renminbi for capital account transactions could affect the ability of our PRC subsidiaries and affiliated PRC operating companies to make investments overseas or to obtain foreign exchange through debt or equity financing, including by means of loans or capital contributions from us.

***Fluctuation in the value of the Renminbi may have a material and adverse effect on your investment.***

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The value of the Renminbi against the U.S. dollar and other currencies is affected by changes in China's political and economic conditions and by China's foreign exchange policies, among other things. In July 2005, the PRC government changed its decades-old policy of pegging the value of the Renminbi to the U.S. dollar, and the Renminbi appreciated more than 20% against the U.S. dollar over the following three years. Between July 2008 and June 2010, this appreciation halted and the exchange rate between the Renminbi and the U.S. dollar remained within a narrow band. Since June 2010, the Renminbi has fluctuated against the U.S. dollar, at times significantly and unpredictably, including depreciation in 2016. Since October 1, 2016, the RMB has joined the International Monetary Fund (IMF)'s basket of currencies that make up the Special Drawing Right (SDR), along with the U.S. dollar, the Euro, the Japanese yen and the British pound. In the fourth quarter of 2016, the RMB has depreciated significantly in the backdrop of a surging U.S. dollar and persistent capital outflows of China. This depreciation halted in 2017, and the RMB appreciated approximately 7% against the U.S. dollar during this one-year period. With the development of the foreign exchange market and progress towards interest rate liberalization and Renminbi internationalization, the PRC government may in the future announce further changes to the exchange rate system and there is no guarantee that the RMB will not appreciate or depreciate significantly in value against the U.S. dollar in the future. It is difficult to predict how market forces or PRC or U.S. government policy may impact the exchange rate between the Renminbi and the U.S. dollar in the future.

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As our costs and expenses are mostly denominated in Renminbi, the appreciation of the Renminbi against the U.S. dollar would increase our costs in U.S. dollar terms. In addition, as our operating subsidiaries and variable interest entities in China receive revenues in Renminbi, any significant depreciation of the Renminbi against the U.S. dollar may have a material and adverse effect on our revenues in U.S. dollar terms and financial condition, and the value of, and any dividends payable on, our ordinary shares. For example, to the extent that we need to convert U.S. dollars into Renminbi for our operations, appreciation of the Renminbi against the U.S. dollar would have an adverse effect on the Renminbi amount we receive from the conversion. Conversely, if we decide to convert our Renminbi into U.S. dollars for the purpose of making payments for dividends on our ordinary shares or for other business purposes, appreciation of the U.S. dollar against the Renminbi would have a negative effect on the U.S. dollar amount available to us. These and other effects on our financial data resulting from fluctuations in the value of the Renminbi against the U.S. dollar could have a material and adverse effect on the market price of our ADSs and your investment. See Item 11. Quantitative and Qualitative Disclosures about Market Risk Foreign Exchange Risk .

***PRC regulations relating to the establishment of offshore special purpose companies by PRC residents may subject our PRC resident beneficial owners or our PRC subsidiaries to liability or penalties, limit our ability to inject capital into our PRC subsidiaries, limit our PRC subsidiaries ability to increase their registered capital or distribute profits to us, or may otherwise adversely affect us.***

The Notice on Issues Relating to the Administration of Foreign Exchange in Fund-Raising and Round-Trip Investment Activities of Domestic Residents Conducted via Offshore Special Purpose Companies, or SAFE Circular 75, requires PRC residents to register with the relevant local branch of SAFE before establishing or controlling any company outside China, referred to as an offshore special purpose company, for the purpose of raising funds from overseas to acquire or exchange the assets of, or acquiring equity interests in, PRC entities held by such PRC residents and to update such registration in the event of any significant changes with respect to that offshore company. SAFE promulgated the Circular on Relevant Issues Concerning Foreign Exchange Control on Domestic Residents Offshore Investment and Financing and Roundtrip Investment through Special Purpose Vehicles, or SAFE Circular 37, in July 2014, which replaced SAFE Circular 75. SAFE Circular 37 requires PRC residents to register with local branches of SAFE in connection with their direct establishment or indirect control of an offshore entity, for the purpose of overseas investment and financing, with such PRC residents legally owned assets or equity interests in domestic enterprises or offshore assets or interests, referred to in SAFE Circular 37 as a special purpose vehicle . The term control under SAFE Circular 37 is broadly defined as the operation rights, beneficiary rights or decision-making rights acquired by the PRC residents in the offshore special purpose vehicles or PRC companies by such means as acquisition, trust, proxy, voting rights, repurchase, convertible bonds or other arrangements. SAFE Circular 37 further requires amendment to the registration in the event of any changes with respect to the basic information of the special purpose vehicle, such as changes in a PRC resident individual shareholder, name or operation period; or any significant changes with respect to the special purpose vehicle, such as increase or decrease of capital contributed by PRC individuals, share transfer or exchange, merger, division or other material event. If the shareholders of the offshore holding company who are PRC residents do not complete their registration with the local SAFE branches, the PRC subsidiaries may be prohibited from distributing their profits and proceeds from any reduction in capital, share transfer or liquidation to the offshore company, and the offshore company may be restricted in its ability to contribute additional capital to its PRC subsidiaries. Moreover, failure to comply with the SAFE registration and amendment requirements described above could result in liability under PRC law for evasion of applicable foreign exchange restrictions.

We have requested our beneficial owners who are PRC residents to make the necessary applications, filings and amendments required by SAFE. However, we cannot provide any assurances that all of our beneficial owners who are PRC residents will continue to make, obtain or amend any applicable registrations or approvals required by these SAFE regulations. The failure or inability of our PRC resident beneficial owners to comply with the registration procedures set forth therein may subject us to fines and legal sanctions, restrict our cross-border investment activities, or limit our ability to contribute additional capital into our PRC subsidiaries, or limit our PRC subsidiaries ability to pay dividends or make other distributions to our company or otherwise adversely affect our business. Moreover, failure to comply with the SAFE registration requirements could result in liability under PRC laws for evasion of foreign exchange restrictions. Furthermore, pursuant to our agreements with Tencent, our PRC subsidiaries, Shanghai SINA Leju, Shanghai Yi Yue and Beijing Maiteng are restricted from paying dividends to us until each of our individual beneficial shareholders who are PRC residents and subject to SAFE registration as described above submits its application to SAFE and each of such PRC subsidiaries submits an application with SAFE as required.



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As it is uncertain how the SAFE regulations will be interpreted or implemented, we cannot predict how these regulations will affect our business operations or future strategy. For example, we may be subject to a more stringent review and approval process with respect to our foreign exchange activities, including the remittance of dividends and foreign currency-denominated borrowings, which may adversely affect our results of operations and financial condition. In addition, if we decide to acquire a PRC domestic company, we cannot assure you that we or the owners of such company, as the case may be, will be able to obtain the necessary approvals or complete the necessary filings and registrations required by the SAFE regulations. This may restrict our ability to implement our acquisition strategy and could adversely affect our business and prospects.

***Failure to comply with PRC regulations regarding the registration requirements for employee stock ownership plans or share option plans may subject the PRC plan participants or us to fines and other legal or administrative sanctions.***

Under the applicable regulations and SAFE rules, PRC citizens who participate in an employee stock ownership plan or a stock option plan in an overseas publicly listed company are required to register with SAFE and complete certain other procedures. In February 2012, SAFE promulgated the Notices on Issues concerning the Foreign Exchange Administration for Stock Incentive Plan of Overseas Publicly-Listed Company, or the Stock Option Rules, which terminated the Application Procedures of Foreign Exchange Administration for Domestic Individuals Participating in Employee Stock Ownership Plan or Stock Option Plan of Overseas Publicly-Listed Company issued by SAFE in March 2007. Pursuant to the Stock Option Rules, if a PRC resident participates in any stock incentive plan of an overseas publicly-listed company, a qualified PRC domestic agent must, among other things, file on behalf of such participant an application with SAFE to conduct the SAFE registration with respect to such stock incentive plan and obtain approval for an annual allowance with respect to the purchase of foreign exchange in connection with the exercise or sale of stock options or stock such participant holds. Such participating PRC residents' foreign exchange income received from the sale of stock and dividends distributed by the overseas publicly-listed company must be fully remitted into a PRC collective foreign currency account opened and managed by the PRC agent before distribution to such participants. We and our PRC employees who have been granted stock options are subject to this rule, and we have registered our existing employee stock ownership plan and stock option plan with the local SAFE branch in Shanghai. However, if there is any change to our existing employee stock ownership plan or stock option plan, we cannot assure you that we and our PRC optionees will be able to amend such registration in a timely manner, or at all. If we or our PRC optionees fail to comply with these regulations, we or our PRC optionees may be subject to fines and legal sanctions. See Item 4. Information on the Company B. Business Overview Regulation Foreign Exchange Registration of Employee Stock Incentive Plans .

***PRC regulations relating to acquisitions in China require us to obtain certain approvals from the MOC and the failure to obtain such approvals could have a material and adverse effect on our business, results of operations, reputation and the trading price of our ADSs.***

The Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, or the M&A Rules, jointly issued by six PRC regulatory agencies and amended by the MOC in 2009, include provisions that purport to require the MOC's approval for acquisitions by offshore entities established or controlled by domestic companies, enterprises or natural persons of onshore entities that are related to such domestic companies, enterprises or natural persons. However, the interpretation and implementation of the M&A Rules remain unclear with no consensus currently existing regarding the scope and applicability of the MOC approval requirement on foreign acquisitions among related parties.

We have entered into contractual arrangements with each of Beijing Leju, Shanghai Yi Xin and Beijing Jiajuju and their respective shareholders, which provide us with substantial ability to control each of these entities. See Item 4. Information on the Company C. Organizational Structure .

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If the MOC subsequently determines that their approval was required for such contractual arrangements, we may need to apply for a remedial approval. There can be no assurance that we will be able to obtain such approval or waiver of such approval from the MOC. Inability to obtain such approval or waiver from the MOC may have a material and adverse effect on our business. Further, we may be subject to certain administrative punishments or other sanctions from the MOC. The MOC or other regulatory agencies may impose fines and penalties on our operations in China, limit our operating privileges in China, delay or restrict the repatriation of U.S. dollars into China, or take other actions that could have further material and adverse effects on our business, financial condition, results of operations, reputation and prospects, as well as the trading price of our ADSs.

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***The M&A Rules and certain other PRC regulations establish complex procedures for some acquisitions of PRC companies by foreign investors, which could make it more difficult for us to pursue growth through acquisitions in China.***

The M&A Rules and recently adopted regulations and rules concerning mergers and acquisitions established additional procedures and requirements that could make merger and acquisition activities by foreign investors more time consuming and complex. For example, the M&A Rules require that the MOC be notified in advance of any change-of-control transaction in which a foreign investor takes control of a PRC domestic enterprise, if (i) any important industry is concerned, (ii) such transaction involves factors that have or may have impact on the national economic security; or (iii) such transaction will lead to a change in control of a domestic enterprise which holds a famous trademark or PRC time-honored brand. Mergers, acquisitions or contractual arrangements that allow one market player to take control of or to exert decisive impact on another market player must also be notified in advance to the MOC when the threshold under the Provisions on Thresholds for Prior Notification of Concentrations of Undertakings issued by the State Council in August 2008 is triggered. In addition, the Implementing Rules Concerning Security Review on the Mergers and Acquisitions by Foreign Investors of Domestic Enterprises, issued by the MOC in August 2011, specify that mergers and acquisitions by foreign investors involved in an industry related to national security are subject to strict review by the MOC, and prohibit any activities attempting to bypass such security review, including by structuring the transaction through a proxy or contractual control arrangement. In the future, we may grow our business by acquiring complementary businesses. Complying with the requirements of the above-mentioned regulations and other relevant rules to complete such transactions could be time consuming, and any required approval processes, including obtaining approval from the MOC or its local counterparts may delay or inhibit our ability to complete such transactions. We believe that our business is not in an industry related to national security but we cannot preclude the possibility that the MOC or other government agencies may publish explanations contrary to our understanding or broaden the scope of such security reviews in the future, in which case our future acquisitions in China, including those by way of entering into contractual control arrangements with target entities, may be closely scrutinized or prohibited. Our ability to expand our business or maintain or expand our market share through future acquisitions would as such be materially and adversely affected.

***Our PRC subsidiaries and consolidated variable interest entities are subject to restrictions on paying dividends or making other payments to us, which may restrict our ability to satisfy our liquidity requirements.***

We are a holding company registered in the Cayman Islands. We rely on dividends from our PRC subsidiaries as well as service and other fees paid to our PRC subsidiaries by our consolidated variable interest entities for our cash and financing requirements, such as the funds necessary to pay dividends and other cash distributions to our shareholders, including holders of our ADSs, and service any debt we may incur.

Our consolidated variable interest entities are directly held by certain PRC individuals designated by us and thus are not able to make dividend payments to our PRC subsidiaries and holding companies outside China. We have the right to charge our consolidated variable interest entities service fees through our relevant PRC subsidiaries pursuant to the exclusive technical support agreements entered into with our consolidated variable interest entities, which together with the other agreements with our consolidated variable interest entities and their respective shareholders, enable us to enjoy substantially all of the economic benefits of our consolidated variable interest entities. These contractual arrangements we have entered into with our consolidated variable interest entities may be subject to scrutiny by the PRC tax authorities. See

Item 3. Key Information D. Risk Factors Risks Related to Our Corporate Structure Contractual arrangements we have entered into with Beijing Leju, Shanghai Yi Xin and Beijing Jiajujiu may be subject to scrutiny by the PRC tax authorities and a finding that we, Beijing Leju, Shanghai Yi Xin or Beijing Jiajujiu owe additional taxes could reduce our net income and the value of your investment . Our consolidated variable interest entities have paid and will continue to pay the service fees to our relevant PRC subsidiaries pursuant to the exclusive technical support agreements between them.

Current PRC regulations permit our PRC subsidiaries to pay dividends to us only out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, each of our PRC subsidiaries is required to set aside a certain amount of



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its after-tax profits each year, if any, to fund certain statutory reserves. These reserves are not distributable as cash dividends. In addition, the PRC Enterprise Income Tax Law, or the EIT Law, and its implementation rules provide that withholding tax rate of 10% will be applicable to dividends payable by PRC companies to non-PRC-resident enterprises unless otherwise exempted or reduced according to treaties or arrangements between the PRC central government and governments of other countries or regions where the non-PRC-resident enterprises are incorporated. We have not received any dividend payments or other distributions from our PRC subsidiaries, and as we currently intend to retain all of the available funds and any future earnings of our PRC subsidiaries to fund the development and growth of our business, we do not expect to receive any dividend payments or other distributions from our PRC subsidiaries in the foreseeable future.

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Furthermore, if our PRC subsidiaries and consolidated variable interest entities incur debt on their own behalf in the future, the instruments governing the debt may restrict the ability of our consolidated variable interest entities to pay service fees to our PRC subsidiaries or the ability of our PRC subsidiaries to pay dividends to us, which may restrict our ability to satisfy our liquidity requirements. Our contractual arrangements with our consolidated variable interest entities enable us to prevent them from entering into debt arrangements that may be detrimental to us because these contractual arrangements provide us with the ability to direct the activities that most significantly affect the economic performance of our consolidated variable interest entities. In addition, the exclusive call option agreements among our PRC subsidiaries, consolidated variable interest entities and their respective shareholders specifically provide that the applicable consolidated variable interest entity shall not, and its shareholders shall ensure that the consolidated variable interest entity does not, incur any loan or offer any guarantee without the prior written consent of our applicable PRC subsidiary. However, any limitation on the ability of our PRC subsidiaries or consolidated variable interest entities to pay dividends or make other payments to us could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our business, pay dividends, or otherwise fund and conduct our business.

***PRC regulation of loans and direct investment by offshore holding companies to PRC entities may delay or prevent us from making loans or additional capital contributions to our PRC operating subsidiaries.***

As an offshore holding company of our PRC operating subsidiaries, we may make loans to our PRC subsidiaries and consolidated variable interest entities, or may make additional capital contributions to our PRC subsidiaries, subject to satisfaction of applicable governmental registration and approval requirements.

Any loans we extend to our PRC subsidiaries, which are treated as foreign-invested enterprises under PRC law, cannot exceed the statutory limit and must be registered with the local counterpart of SAFE. The statutory limit for the total amount of foreign debt of a foreign-invested company was the difference between the amount of total investment and the amount of registered capital of such foreign-invested company as approved by the MOC or its local counterpart. According to a notice issued by the People's Bank of China regarding foreign debt on January 11, 2017, the total amount of foreign debt of our PRC subsidiaries or consolidated variable interest entities or other PRC domestic entities shall not exceed two times of their respective net assets. Pursuant to the above notice and other PRC law regarding foreign debt, within a one-year grace period starting from January 11, 2017, the statutory limit for the total amount of foreign debt of a foreign-invested company, which is subject to its own choice, is either the difference between the amount of total investment and the amount of registered capital as approved by the MOC or its local counterpart, or two times of their respective net assets. It is very likely that our PRC subsidiaries will elect to apply two times of their respective net assets as the limit for foreign debt if any of them needs to borrow any foreign debt during the grace period. We may extend loans to the relevant PRC subsidiary in an amount that does not exceed the difference between the amount of its total investment and the amount of its registered capital or two times of its net assets referenced above. With respect to our consolidated variable interest entities or other domestic PRC entities, the limit for the total amount of foreign amount is two times of their respective net assets pursuant to the above notice. According to Notice of the National Development and Reform Commission on Promoting the Administrative Reform of the Recordation and Registration System for Enterprises' Issuance of Foreign Debts issued by the National Development and Reform Commission in September 2015, any loans we extend to our consolidated variable interest entities or other PRC operating companies that are domestic PRC entities for more than one year must be filed with the National Development and Reform Commission or its local counterpart and must also be registered with SAFE or its local branches.

We may also decide to finance our PRC subsidiaries by means of capital contributions. According to the Interim Measures for the Recordation Administration of the Formation and Modification of Foreign-Funded Enterprises issued by the MOC on October 8, 2016, these capital contributions shall be filed with the MOC or its local counterpart. SAFE has also issued a few circulars with respect to the conversion by a foreign-invested enterprise of foreign currency registered capital into Renminbi and the flow and use of such Renminbi fund. Capital contributions are currently required to be filed in the Foreign Investment Comprehensive Management Information System. In March 2015, SAFE issued the Circular on the Reforming of the Management Method of the Settlement of Foreign Currency Capital of Foreign-Invested Enterprises, effective June 2015, or SAFE Circular 19. Under SAFE Circular 19, a foreign-invested enterprise may choose to convert its registered capital from foreign currency to Renminbi on a self-discretionary basis, and the Renminbi capital converted can be used for equity investments within China, which will be regarded as the reinvestment of foreign-invested enterprise.



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SAFE also promulgated a circular in November 2011, which prohibits a foreign-invested enterprise from using Renminbi funds converted from its foreign currency registered capital to provide entrustment loans or repay loans borrowed from non-financial enterprises. Violation of these circulars could result in severe monetary or other penalties. These circulars may limit our ability to transfer funds to our consolidated variable interest entities and the subsidiaries of our PRC subsidiaries, and we may not be able to convert funds into Renminbi to invest in or acquire any other PRC companies, or establish other consolidated variable interest entities in China. Despite the restrictions under these SAFE circulars, our PRC subsidiaries may use their income in Renminbi generated from their operations to finance the relevant consolidated variable interest entities through entrustment loans to the consolidated variable interest entities or loans to such variable interest entities' shareholders for the purpose of making capital contributions to such variable interest entities. In addition, our PRC subsidiaries can use Renminbi funds converted from foreign currency registered capital to carry out any activities within their normal course of business and business scope, including to purchase or lease servers and other relevant equipment and fund other operational needs in connection with their provision of services to the relevant consolidated variable interest entities under the applicable exclusive technical support agreements.

In light of the various requirements imposed by PRC regulations on loans to, and direct investment in, PRC entities by offshore holding companies, we cannot assure you that we will be able to complete the necessary government registrations or obtain the necessary government approvals on a timely basis, if at all, with respect to future loans to our PRC subsidiaries or any consolidated variable interest entity or future capital contributions by us to our PRC subsidiaries. If we fail to complete such registrations or obtain such approvals, our ability to fund our PRC operations may be negatively affected, which could materially and adversely affect our liquidity and our ability to fund and expand our business.

***The discontinuation of any of the preferential tax treatments currently available to us in China or imposition of any additional PRC taxes on us could adversely affect our financial condition and results of operations.***

Pursuant to a Circular on Enterprise Income Tax Preferential Treatments issued by the State Administration of Taxation, or SAT, and the Ministry of Finance effective February 2008, as partially amended by a Circular on Enterprise Income Tax Policies for Further Encouraging the Development of the Software Industry and the Integrated Circuit Industry, a qualified software enterprise is eligible to be exempted from income tax for its first two profitable years, followed by a 50% reduction in income tax, to a rate of 12.5%, for the subsequent three years. Shanghai Fangxin, a wholly owned subsidiary of ours, was recognized as a qualified software enterprise and was further approved by the local tax authority in October 2012 to become eligible for being exempted from income tax for 2012 and 2013, followed by a 50% reduction in income tax from 2014 through 2016. Shanghai Fangxin has ceased to enjoy preferential tax treatment starting from 2017. Shanghai SINA Leju was entitled to enjoy a favorable statutory tax rate of 15% for 2013 and 2014 as a high and new technology enterprise. Shanghai SINA Leju renewed its qualification of high and new technology enterprise in 2015 and is entitled to enjoy a favorable statutory tax rate of 15% from 2015 through 2017. If Shanghai SINA Leju fails to maintain high and new technology enterprise status, its applicable enterprise income tax rate may increase to up to 25%. The loss or potential loss of preferential tax treatments enjoyed by Shanghai Fangxin and Shanghai SINA Leju could have a material and adverse effect on our financial condition and results of operations.

Various local governments in China have also provided discretionary preferential tax treatments to us. However, at any time, these local governments may decide to reduce or eliminate these preferential tax treatments. Furthermore, these local implementations of tax laws may be found in violation of national laws or regulations, and as a consequence, we may be subject to retroactive imposition of higher taxes as a result. We are required under U.S. GAAP to accrue taxes for these contingencies. The change in accounting requirement for reporting tax contingencies, any reduction or elimination of these preferential tax treatments and any retroactive imposition of higher taxes could have an adverse effect on our results of operations.

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***We face uncertainty with respect to indirect transfer of equity interests in PRC resident enterprises or other assets attributed to a PRC establishment of a non-PRC company, or immovable properties located in China owned by their non-PRC holding companies.***

We face uncertainties on the reporting and consequences on private equity financing transactions, share exchange or other transactions involving the transfer of shares in our company by investors who are non-PRC resident enterprises.

In February 2015, the SAT issued the Notice on Several Issues Concerning Enterprise Income Tax for Indirect Share Transfer by Non-PRC Resident Enterprises, or the SAT Bulletin 7, which replaced previous rules under the Notice on Strengthening Administration of Enterprise Income Tax for Share Transfers by Non-PRC Resident Enterprises, or the SAT Circular 698, issued by the SAT in 2009. Pursuant to the SAT Bulletin 7, an indirect transfer of assets of a PRC resident enterprise, including equity interests in a PRC resident enterprise, by non-PRC resident enterprises may be re-characterized and treated as a direct transfer of PRC taxable assets, if such transaction arrangement lacks a reasonable commercial purpose and was established for the purpose of avoiding payment of PRC enterprise income tax. As a result, gains derived from such indirect transfer may be subject to PRC enterprise income tax. According to the SAT Bulletin 7, PRC taxable assets include assets attributed to an establishment in China, immovable properties located in China, and equity interests in PRC resident enterprises, in respect of which gains from their transfer by a direct holder, being a non-PRC resident enterprise, would be subject to PRC enterprise income taxes. In respect of an indirect transfer of assets of a PRC establishment, the resulting gain is to be included with the enterprise income tax filing of the PRC establishment or place of business being transferred, and would consequently be subject to PRC enterprise income tax at a rate of 25%. If the underlying transfer relates to immovable properties located in China or to equity interests in a PRC resident enterprise, which is not related to a PRC establishment or place of business of a non-resident enterprise, a PRC enterprise income tax at 10% would apply, subject to preferential tax treatment under applicable tax treaties or similar arrangements, if any, and the party who is obligated to make payments for the transfer has a withholding obligation. Although the SAT Bulletin 7 does not apply to share transfers of publicly traded companies, there is uncertainty as to the application of the SAT Bulletin 7 or previous rules under the SAT Circular 698. We and our non-PRC resident investors may be at risk of being subject to tax filing or withholding obligations under the SAT Bulletin 7 and we may be required to expend valuable resources to comply with the SAT Bulletin 7 or to establish that we should not be taxed under the SAT Bulletin 7.

We cannot assure you that the PRC tax authorities will not, at their discretion, adjust any capital gains and impose tax return filing and withholding or tax payment obligations on the transferors and transferees, while our PRC subsidiaries may be requested to assist in the filing. Any PRC tax imposed on a transfer of our shares or any adjustment of such gains would cause us to incur additional costs and may have a negative impact on the value of your investment in us.

***Dividends payable to us by our PRC subsidiaries may be subject to PRC withholding taxes or we may be subject to PRC taxation on our worldwide income, and dividends distributed to our investors may be subject to PRC withholding taxes under the EIT Law and our investors may be subject to PRC withholding tax on the transfer of our ordinary shares or ADSs.***

Under the EIT Law and its implementation rules, all domestic and foreign invested companies would be subject to a uniform enterprise income tax at the rate of 25% and dividends from a PRC subsidiary to its foreign parent company will be subject to a withholding tax at the rate of 10%, unless such foreign parent company's jurisdiction of incorporation has a tax treaty with China that provides for a reduced rate of withholding, or the tax is otherwise exempted or reduced pursuant to PRC tax laws.

Under the Measures for the Administration of Non-Resident Taxpayers' Enjoyment of the Treatment under Tax Agreements, effective November 2015, our Hong Kong subsidiaries need to obtain approval from the relevant local branch of the SAT in order to enjoy the preferential withholding tax rate of 5% in accordance with the Arrangement between Mainland China and Hong Kong for the Avoidance of Double Taxation

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and Prevention of Fiscal Evasion with respect to Taxes on Income. The SAT further clarified in a circular that tax treaty benefits will be denied to conduit or shell companies without business substance and that a beneficial ownership analysis will be used based on a substance-over-form principle to determine whether or not to grant the tax treaty benefits. It is unclear at this stage whether this circular applies to dividends from our PRC subsidiaries paid to us through our Hong Kong subsidiaries. However, it is possible that our Hong Kong subsidiaries might not be considered as beneficial owners of any dividends from their PRC subsidiaries and as a result would be subject to withholding tax at the rate of 10%. As a result, there is no assurance that our Hong Kong subsidiaries will be able to enjoy the preferential withholding tax rate.

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In addition, under the EIT Law, enterprises organized under the laws of jurisdictions outside China with their de facto management bodies located within China may be considered PRC resident enterprises and therefore be subject to PRC enterprise income tax at the rate of 25% on their worldwide income. Under the implementation rules of the EIT Law, de facto management bodies are defined as the bodies that have material and overall management and control over the business, personnel, accounts and properties of the enterprise. A subsequent circular issued by the SAT provides that a foreign enterprise controlled by a PRC company or a PRC company group will be classified as a resident enterprise with its de facto management bodies located within China if the following requirements are satisfied: (i) the senior management and core management departments in charge of its daily operations function mainly in China; (ii) its financial and human resources decisions are subject to determination or approval by persons or bodies in China; (iii) its major assets, accounting books, company seals, and minutes and files of its board and shareholders meetings are located or kept in China; and (iv) more than half of the enterprise's directors or senior management with voting rights reside in China.

The EIT Law and its implementation rules are relatively new and ambiguities exist with respect to the interpretation of the provisions relating to resident enterprise issues. Although our offshore holding companies are not controlled by any PRC company or company group, we cannot assure you that we will not be deemed to be a PRC resident enterprise under the EIT Law and its implementation rules. If we were considered a PRC resident enterprise, we would be subject to the PRC enterprise income tax at the rate of 25% on our worldwide income; dividend income we receive from the PRC subsidiaries, however, may be exempt from PRC tax since such income is exempted under the EIT Law to a PRC resident recipient. However, as there is still uncertainty as to how the EIT Law and its implementation rules will be interpreted and implemented, and the PRC foreign exchange control authorities have not yet issued guidance with respect to the processing of outbound remittances to entities that are treated as PRC resident enterprises, we cannot assure you that we are eligible for such PRC enterprise income tax exemptions or reductions. In addition, ambiguities also exist with respect to the interpretation of the provisions relating to identification of PRC-sourced income. If we were considered a PRC resident enterprise, any dividends payable to non-resident holders of our ordinary shares or ADSs, and the gains such investors may realize from the transfer of our ordinary shares or ADSs, may be treated as PRC-sourced income and therefore be subject to a 10% PRC withholding tax (or 20% in the case of non-resident individual holders), unless otherwise exempted or reduced pursuant to treaties or applicable PRC law.

If we became a PRC resident enterprise under the new PRC tax system and received income other than dividends, our profitability and cash flows would be adversely affected due to our worldwide income being taxed in China under the EIT Law. Additionally, we would incur an incremental PRC dividend withholding tax cost if we distributed our profits to our ultimate shareholders. There is, however, not necessarily an incremental PRC dividend withholding tax on the piece of the profits distributed from our PRC subsidiaries, since they would have been subject to PRC dividend withholding tax even if we were not a PRC tax resident.

***Failure to obtain the approvals or complete the filings required for our real estate agency and brokerage business in China may limit our ability to provide real estate agency and brokerage services or establish new PRC operating entities.***

Currently, we mainly use City Rehouse, and its subsidiaries to provide support for our e-commerce business. Certain of the support services provided by City Rehouse and its subsidiaries may be regarded as real estate agency and brokerage services under PRC law. Pursuant to the previous Foreign Investment Industrial Guidance Catalogue issued in 2011, foreign ownership of the real estate agency and brokerage business in China is subject to government approval. Accordingly, the establishment of, or investment in any company with a registered business scope of, real estate agency and brokerage services in China by our PRC subsidiaries directly is, and by our PRC subsidiaries indirectly through their subsidiaries may be, subject to approval of the MOC or its relevant local counterparts which should be obtained before registering such company with the SAIC or its local counterparts. Although City Rehouse has not obtained approval from the competent local branch of the MOC in connection with its establishment of, or investment in, its subsidiaries with a registered business scope of real estate brokerage business, each subsidiary of City Rehouse has obtained and maintained a business license with such business scope, and none of such subsidiaries has received any notice of warning or penalties from the competent authorities for lacking such approval.

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The latest Foreign Investment Industrial Guidance Catalogue, effective April 2015, loosens the restrictions on foreign ownership of the real estate agency and brokerage business in China by removing it from the restricted category for foreign investment. Under the new catalogue, City Rehouse no longer needs the approval of the MOC or its relevant local counterparts for the establishment of, or investment in any new PRC subsidiary with a registered business scope of real estate agency and brokerage services. However, we cannot assure you that the historical non-compliance of City Rehouse not obtaining the requisite government approval would not be found as a violation by relevant PRC government authorities. If the historical non-compliance were found and determined by the relevant PRC government authorities as a violation, our relevant subsidiaries would be subject to warnings, fines or even revocation of its licenses.



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In addition, pursuant to the relevant regulations regarding real estate agency and brokerage businesses, a real estate broker must conduct a filing with the real estate administrative authority within 30 days after issuance of its business license. We have completed the filing with the competent local real estate administrative authorities for our 33 PRC operating entities which currently provide support services considered to be real estate agency and brokerage services under the PRC law. In addition, among our other 43 PRC operating entities with the registered business scope of real estate brokerage business which are intended to provide support services to our e-commerce business, we are in the process of making such filings with the relevant local real estate administrative authorities for three entities, and are in the process of preparing the relevant application documents with respect to all the remaining 40 entities which intend to make such filings. The requirements of the local real estate administrative authority for such filing may vary in different cities and we cannot assure you that we will be able to complete such filing in a timely manner or at all. If we fail to properly complete such filings, it may limit the ability of the relevant PRC operating entities to provide similar support service to our e-commerce business.

***Our auditor, like other independent registered public accounting firms operating in China, is not permitted to be subject to inspection by the Public Company Accounting Oversight Board, and as such, investors may be deprived of the benefits of such inspection.***

Our independent registered public accounting firm that issued the audit reports included in this annual report filed with the SEC, as an auditor of companies that are traded publicly in the United States and a firm registered with the Public Company Accounting Oversight Board (United States), or PCAOB, is required by the laws of the United States to undergo regular inspections by the PCAOB to assess its compliance with the laws of the United States and professional standards. Because our auditor is located in China, a jurisdiction where the PCAOB is currently unable to conduct inspections without the approval of the PRC authorities, our auditor, like other independent registered public accounting firms operating in China, is currently not inspected by the PCAOB.

Inspections of other firms that the PCAOB has conducted outside China have identified deficiencies in those firms' audit procedures and quality control procedures, which may be addressed as part of the inspection process to improve future audit quality. The inability of the PCAOB to conduct inspections of independent registered public accounting firms operating in China makes it more difficult to evaluate the effectiveness of our auditor's audit procedures or quality control procedures. As a result, investors may be deprived of the benefits of the PCAOB inspections and lose confidence in our reported financial information and procedures and the quality of our financial statements.

***Proceedings instituted by the SEC against certain PRC-based accounting firms, including our independent registered public accounting firm, could result in financial statements being determined to not be in compliance with the requirements of the Exchange Act.***

Starting in 2011 the PRC affiliates of the big four accounting firms (including our independent registered public accounting firm) were affected by a conflict between U.S. and PRC law. Specifically, for certain U.S.-listed companies operating and audited in mainland China, the SEC and the PCAOB sought to obtain from the PRC firms access to their audit work papers and related documents. The firms were, however, advised and directed that under PRC law they could not respond directly to the U.S. regulators on those requests, and that requests by foreign regulators for access to such papers in China had to be channeled through the China Securities Regulatory Commission.

In late 2012, this impasse led the SEC to commence administrative proceedings under Rule 102(e) of its Rules of Practice and also under the Sarbanes-Oxley Act of 2002 against the PRC-based accounting firms (including our independent registered public accounting firm). A first instance trial of the proceedings in July 2013 in the SEC's internal administrative court resulted in an adverse judgment against the firms. The administrative law judge proposed penalties on the firms including a temporary suspension of their right to practice before the SEC, although that proposed penalty did not take effect pending review by the SEC. On February 6, 2015, before SEC's review had taken place, the firms reached a settlement with the SEC. The settlement requires the firms to follow detailed procedures to seek to provide the SEC with access to

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PRC-based accounting firms audit documents via the China Securities Regulatory Commission. If they fail to meet specified criteria, the SEC retains the authority to impose a variety of additional remedial measures on the firms depending on the nature of the failure. Remedies for any future noncompliance could include, as appropriate, an automatic six-month bar on a single firm's performance of certain audit work, commencement of a new proceeding against a firm, or in extreme cases the resumption of the current proceeding against all four firms.

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In the event that the SEC restarts the administrative proceedings, depending upon the final outcome, listed companies in the United States with major PRC operations may find it difficult or impossible to retain auditors in respect of their operations in China, which could result in financial statements being determined to not be in compliance with the requirements of the Exchange Act, including possible delisting. Moreover, any negative news about any such future proceedings against these audit firms may cause investor uncertainty regarding PRC-based, U.S.-listed companies and the market price of our ADSs may be adversely affected.

If our independent registered public accounting firm were denied, even temporarily, the ability to practice before the SEC and we were unable to timely find another registered public accounting firm to audit and issue an opinion on our financial statements, our financial statements could be determined not to be in compliance with the requirements of the Exchange Act. Such a determination could ultimately lead to the delisting of our ordinary shares from the NYSE or deregistration from the SEC, or both, which would substantially reduce or effectively terminate the trading of our ADSs in the United States.

**Risks Related to Our ADSs**

*The market price for our ADSs has been and may continue to be highly volatile.*

In 2017, the closing price of our ADSs on the NYSE, varied from a high of \$4.71 to a low of \$1.28.

The market price for our ADSs has been and may continue to be highly volatile and subject to wide fluctuations due to factors beyond our control, such as broad market and industry factors. The securities markets in the United States, China and elsewhere have experienced significant price and volume fluctuations that are not related to the operating performance of particular companies, particularly in recent years. The securities of some PRC-based companies that have listed their securities in the United States have experienced significant volatility since their initial public offerings, including, in some cases, substantial price declines in the trading prices of their securities. The trading performances of these PRC companies' securities after their offerings may affect the attitudes of investors toward PRC companies listed in the United States, which consequently may impact the trading performance of our ADSs, regardless of our actual operating performance. Since 2011, some PRC-based companies became targets of short sellers. Any negative news or perceptions about inadequate corporate governance practices or fraudulent accounting, corporate structure or other matters of other PRC companies may also negatively affect the attitudes of investors towards PRC companies in general, including us, regardless of whether we have conducted any inappropriate activities. Although we have confidence in our corporate governance practice and internal control over financial reporting, we cannot assure you that we will not be subject to such attack. Any negative news or perceptions about our corporate governance or accounting practice in the future, regardless of its merits, will negatively affect the trading performance of our ADSs. In addition, the global financial crisis and the ensuing economic recessions in many countries have contributed and may continue to contribute to extreme volatility in the global stock markets.

In addition to the broad market and industry fluctuations, factors specific to our own operations may adversely affect the market price of our ADSs, including the following:

- variations in our net revenues, earnings and cash flow;

- announcements of new investments, acquisitions, strategic partnerships, or joint ventures by us or our competitors;
- announcements of new services and expansions by us or our competitors;
- changes in financial estimates by securities analysts;
- fluctuations in our operating metrics;
- additions or departures of key personnel;
- release of lock-up or other transfer restrictions on our outstanding equity securities or sales of additional equity securities;

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- detrimental negative publicity about us, our competitors or our industry;
- regulatory developments affecting us or our industry; and
- potential litigation or regulatory investigations.

Any of these factors may result in large and sudden changes in the volume and price at which our ADSs will trade.

*We are a foreign private issuer within the meaning of the rules under the Exchange Act, and as such we are exempt from certain provisions applicable to U.S. domestic public companies.*

Because we qualify as a foreign private issuer under the Exchange Act, we are exempt from certain provisions of the securities rules and regulations in the United States that are applicable to U.S. domestic issuers, including:

- the rules under the Exchange Act requiring the filing with the SEC, of quarterly reports on Form 10-Q or current reports on Form 8-K;
- the sections of the Exchange Act regulating the solicitation of proxies, consents, or authorizations in respect of a security registered under the Exchange Act;
- the sections of the Exchange Act requiring insiders to file public reports of their share ownership and trading activities and liability for insiders who profit from trades made in a short period of time; and
- the selective disclosure rules by issuers of material nonpublic information under Regulation FD.

We are required to file an annual report on Form 20-F within four months of the end of each fiscal year. In addition, we intend to publish our results on a quarterly basis as press releases, distributed pursuant to the rules and regulations of the NYSE. Press releases relating to financial results and material events will also be furnished to the SEC on Form 6-K. However, the information we are required to file with or furnish to the SEC will be less extensive and less timely as compared to that required to be filed with the SEC by U.S. domestic issuers. As a result, you may not be afforded the same protections or information, which would be made available to you, were you investing in a U.S. domestic issuer.

*If securities or industry analysts do not publish research or publish inaccurate or unfavorable research about our business, the market price for our ADSs and trading volume could decline.*

The trading market for our ADSs will depend in part on the research and reports that securities or industry analysts publish about us or our business. If research analysts do not establish and maintain adequate research coverage or if one or more of the analysts who covers us downgrades our ADSs or publishes inaccurate or unfavorable research about our business, the market price for our ADSs would likely decline. If one or more of these analysts cease coverage of our company or fail to publish reports on us regularly, we could lose visibility in the financial markets, which, in turn, could cause the market price or trading volume for our ADSs to decline.

*The sale or availability for sale, or perceived sale or availability for sale, of substantial amounts of our ADSs could adversely affect their market price.*

Sales of our ADSs in the public market, or the perception that these sales could occur, could cause the market price of our ADSs to decline. As of March 31, 2018, we had 135,763,962 ordinary shares outstanding (excluding the 4,205,458 ordinary shares issued to our depository bank for bulk issuance of ADSs reserved for future issuances upon the exercise or vesting of awards granted under our share incentive plan). E-House, SINA and Tencent held an aggregate of approximately 82% of our ordinary shares outstanding as of March 31, 2018. The sale or perceived sale of a substantial amount of our ADSs by any of these principal shareholders could adversely affect the prevailing market price for our ADSs. Such sales or perceived sales also might make it more difficult for us to sell equity or equity-related securities in the future at a time and price that we deem appropriate. In addition, if we pay for our future acquisitions in whole or in part with additionally issued ordinary shares, your ownership interests in our company would be diluted and this, in turn, could have an adverse effect on the price of our ADSs.

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***Our articles of association contain anti-takeover provisions that could have a material adverse effect on the rights of holders of our ordinary shares and ADSs.***

Our memorandum and articles of association contain provisions to limit the ability of others to acquire control of our company or cause us to engage in change-of-control transactions. These provisions could have the effect of depriving our shareholders of an opportunity to sell their shares at a premium over prevailing market prices by discouraging third parties from seeking to obtain control of our company in a tender offer or similar transaction. For example, our board of directors has the authority, without further action by our shareholders, to issue preferred shares in one or more series and to fix their designations, powers, preferences, privileges, and relative participating, optional or special rights and the qualifications, limitations or restrictions, including dividend rights, conversion rights, voting rights, terms of redemption and liquidation preferences, any or all of which may be greater than the rights associated with our ordinary shares, in the form of ADS, or otherwise. Preferred shares could be issued quickly with terms calculated to delay or prevent a change in control of our company or make removal of management more difficult. If our board of directors decides to issue preferred shares, the price of our ADSs may fall and the voting and other rights of the holders of our ordinary shares and ADSs may be materially and adversely affected.

***You may face difficulties in protecting your interests, and your ability to protect your rights through U.S. courts may be limited, because we are incorporated under Cayman Islands law.***

We are an exempted company limited by shares incorporated under the laws of the Cayman Islands. Our corporate affairs are governed by our memorandum and articles of association, as amended and restated from time to time, the Companies Law (2018 Revision) of the Cayman Islands and the common law of the Cayman Islands. The rights of shareholders to take action against the directors, actions by minority shareholders and the fiduciary duties of our directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as from the English common law, the decisions of whose courts are of persuasive authority, but are not binding, on a court in the Cayman Islands. The rights of our shareholders and the fiduciary duties of our directors under Cayman Islands law are not as clearly established as they would be under statutes or judicial precedent in some jurisdictions in the United States. In particular, the Cayman Islands has a less developed body of securities laws than the United States. Some U.S. states, such as Delaware, have more fully developed and judicially interpreted bodies of corporate law than the Cayman Islands. In addition, shareholders of Cayman Islands companies may not have standing to initiate a shareholder derivative action in a federal court of the United States.

Shareholders of Cayman Islands exempted companies like us have no general rights under Cayman Islands law to inspect corporate records or to obtain copies of lists of shareholders of these companies. Our directors have discretion under our existing articles of association to determine whether or not, and under what conditions, our corporate records may be inspected by our shareholders, but are not obliged to make them available to our shareholders. This may make it more difficult for you to obtain the information needed to establish any facts necessary for a shareholder motion or to solicit proxies from other shareholders in connection with a proxy contest.

Certain corporate governance practices in the Cayman Islands, which is our home country, differ significantly from requirements for companies incorporated in other jurisdictions such as the United States. Currently, we do not plan to rely on home country practice with respect to any corporate governance matter. However, if we choose to follow home country practice in the future, our shareholders may be afforded less protection than they otherwise would under rules and regulations applicable to U.S. domestic issuers.

As a result of all of the above, our public shareholders may have more difficulty in protecting their interests in the face of actions taken by management, members of the board of directors or controlling shareholders than they would as public shareholders of a company incorporated in

the United States.

*Judgments obtained against us by our shareholders may not be enforceable in our home jurisdiction.*

We are a Cayman Islands company and a substantial majority of our assets are located outside the United States. A significant percentage of our current operations are conducted in China. In addition, a significant majority of our current directors and officers are nationals and residents of countries other than the United States. As a result, it may be difficult or impossible for you to effect service of process within the United States upon us or these persons or to bring an action against us or against these individuals in the United States in the event that you believe that your rights have been infringed under the U.S. federal securities laws or otherwise. Even if you are successful in bringing an action of this kind, the laws of the Cayman Islands and of China may render you unable to enforce a judgment against our assets or the assets of our directors and officers.



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There is no statutory enforcement in the Cayman Islands of judgments obtained in the federal or state courts of the United States, and the Cayman Islands are not a party to any treaties for the reciprocal enforcement or recognition of such judgments. A judgment obtained in such jurisdiction will be recognized and enforced in the courts of the Cayman Islands at common law, without any re-examination of the merits of the underlying dispute, by an action commenced on the foreign judgment debt in the Grand Court of the Cayman Islands, provided such judgment (i) was given by a foreign court of competent jurisdiction, (ii) imposes on the judgment debtor a liability to pay a liquidated sum for which the judgment has been given, (iii) is final, (iv) is not in respect of taxes, a fine or a penalty, and (v) was not obtained in a manner and is not of a kind the enforcement of which is contrary to natural justice or the public policy of the Cayman Islands. However, the Cayman Islands courts are unlikely to enforce a judgment obtained from the U.S. courts under civil liability provisions of the U.S. federal securities law if such judgment is determined by the courts of the Cayman Islands to give rise to obligations to make payments that are penal or punitive in nature. Because such determination has not yet been made by a court of the Cayman Islands, it is uncertain whether such civil liability judgments from U.S. courts would be enforceable in the Cayman Islands.

***You, as holders of ADSs, may have fewer rights than holders of our ordinary shares and must act through the depositary to exercise those rights.***

Holders of ADSs do not have the same rights of our shareholders and may only exercise the voting rights with respect to the underlying ordinary shares in accordance with the provisions of the deposit agreement. Under our memorandum and articles of association, the minimum notice period required to convene a general meeting is seven calendar days. When a general meeting is convened, you may not receive sufficient notice of a shareholders' meeting to permit you to withdraw the underlying ordinary shares represented by your ADSs to allow you to cast your vote with respect to any specific matter. In addition, the depositary and its agents may not be able to send voting instructions to you or carry out your voting instructions in a timely manner. We will make all reasonable efforts to cause the depositary to extend voting rights to you in a timely manner, but we cannot assure you that you will receive the voting materials in time to ensure that you can instruct the depositary to vote the underlying ordinary shares represented by your ADSs. Furthermore, the depositary and its agents will not be responsible for any failure to carry out any instructions to vote, for the manner in which any vote is cast or for the effect of any such vote. As a result, you may not be able to exercise your right to vote and you may lack recourse if the underlying ordinary shares represented by your ADSs are not voted as you requested. In addition, in your capacity as an ADS holder, you will not be able to call a shareholders' meeting.

***The return of your investment our ADSs will primarily depend upon any future price appreciation of our ADS.***

Subject to our memorandum and articles of association and the laws of the Cayman Islands, our board of directors has complete discretion as to whether to distribute dividends. Our shareholders may by ordinary resolution declare a dividend, but not exceeding the amount recommended by our board of directors. Even if our board of directors decides to declare and pay dividends, the timing, amount and form of dividends will depend on, among other things, our results of operations and cash flow, our capital requirements and surplus, the amount of distributions, if any, received by us from our subsidiaries, our financial condition, contractual restrictions and other factors deemed relevant by our board of directors. Accordingly, the return on your investment in our ADSs will likely depend primarily upon any future price appreciation of our ADSs. There is no guarantee that our ADSs will appreciate in value or even maintain the price at which you purchased the ADSs. You may not realize a return on your investment in our ADSs and you may even lose your entire investment in our ADSs.

***You may not receive dividends or other distributions on our ordinary shares and you may not receive any value for them, if it is illegal or impractical to make them available to you.***

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The depositary of our ADSs has agreed to pay to you the cash dividends or other distributions it or the custodian receives on ordinary shares or other deposited securities underlying our ADSs, after deducting its fees and expenses. You will receive these distributions in proportion to the number of ordinary shares your ADSs represent. However, the depositary is not responsible if it decides that it is unlawful or impractical to make a distribution available to any holders of ADSs. For example, it would be unlawful to make a distribution to a holder of ADSs if it consists of securities that require registration under the Securities Act but that are not properly registered or distributed under an applicable exemption from registration. The depositary may also determine that it is not feasible to distribute certain property through the mail. Additionally, the value of certain distributions may be less than the cost of mailing them. In these cases, the depositary may determine not to distribute such property. We have no obligation to register under U.S. securities laws any ADSs, ordinary shares, rights or other securities received through such distributions. We also have no obligation to take any other action to permit the distribution of ADSs, ordinary shares, rights or anything else to holders of ADSs. This means that you may not receive distributions we make on our ordinary shares or any value for them if it is illegal or impractical for us to make them available to you. These restrictions may cause a material decline in the value of our ADSs.

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***You may not be able to participate in rights offerings and may experience dilution of your holdings as a result.***

We may, from time to time, distribute rights to our shareholders, including rights to acquire securities. Under the deposit agreement, the depositary will not distribute rights to holders of ADSs unless the distribution and sale of rights and the securities to which these rights relate are either exempt from registration under the Securities Act with respect to all holders of ADSs, or are registered under the provisions of the Securities Act. The depositary may, but is not required to, attempt to sell these undistributed rights to third parties, and may allow the rights to lapse. We may be unable to establish an exemption from registration under the Securities Act, and we are under no obligation to file a registration statement with respect to these rights or underlying securities or to endeavor to have a registration statement declared effective. Accordingly, holders of ADSs may be unable to participate in our rights offerings and may experience dilution of their holdings as a result.

***You may be subject to limitations on transfer of your ADSs.***

Your ADSs are transferable on the books of the depositary. However, the depositary may close its transfer books at any time or from time to time when it deems expedient in connection with the performance of its duties. In addition, the depositary may refuse to deliver, transfer or register transfers of ADSs generally when our books or the books of the depositary are closed, or at any time if we or the depositary deem it advisable to do so because of any requirement of law or of any government or governmental body, or under any provision of the deposit agreement, or for any other reason.

***We may be classified as a passive foreign investment company, which could result in adverse U.S. federal income tax consequences to U.S. holders.***

We will be classified as a passive foreign investment company, or PFIC for U.S. federal income tax purposes for any taxable year, if either (i) 75% or more of our gross income for such year consists of certain types of passive income or (ii) 50% or more of the value of our assets (as determined on the basis of a quarterly average) during such year produce or are held for the production of passive income. Although the law in this regard is unclear, we treat our consolidated variable interest entities as being owned by us for U.S. federal income tax purposes, not only because we exercise effective control over the operation of such entities but also because we are entitled to substantially all of their economic benefits, and, as a result, we consolidate their operating results in our consolidated financial statements.

While we believe we were not a PFIC for U.S. federal income tax purposes for the taxable year ended December 31, 2017 and do not expect to be a PFIC for the current taxable year and the foreseeable future, no assurance can be given in this regard because the determination of whether we will be or become a PFIC is a factual determination made annually that will depend, in part, upon the composition of our income and assets. Fluctuations in the market price of our ADSs and ordinary shares may cause us to become a PFIC for the current taxable year or future taxable years because the value of our assets for purposes of the asset test, including the value of our goodwill and other unbooked intangibles, may be determined by reference to the market price of our ADSs and the value of our assets from time to time, including, in particular the value of our goodwill and other unbooked intangibles (which may depend upon the market value of our ADSs or ordinary shares from time-to-time, (which may be volatile)). Furthermore, the determination of whether we will be or become a PFIC will also be affected by how, and how quickly, we use our liquid assets. Under circumstances where our revenue from activities that produce passive income significantly increase relative to our revenue from activities that produce non-passive income, or where we determine not to deploy significant amounts of cash for active purposes our risk of being classified as a PFIC may substantially increase. It is also possible that the Internal Revenue Service, or the IRS, may challenge our classification or valuation of our goodwill and other unbooked intangibles, which may result in our company being or, becoming classified as, a PFIC for the current or future taxable years. In addition, there can be no assurance our business plans will not change in a manner that will affect our PFIC status.



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If we are classified as a PFIC in any taxable year, a U.S. holder (as defined in Taxation U.S. Federal Income Tax Considerations ) may incur significantly increased U.S. federal income tax on gain recognized on the sale or other disposition of the ADSs or ordinary shares and on the receipt of distributions on the ADSs or ordinary shares to the extent such gain or distribution is treated as an excess distribution under the U.S. federal income tax rules. Further, if we are classified as a PFIC for any year during which a U.S. holder holds our ADSs or ordinary shares, we generally will continue to be treated as a PFIC for all succeeding years during which such U.S. holder holds our ADSs or ordinary shares. Each U.S. holder is urged to consult its tax advisor concerning the U.S. federal income tax consequences of an investment in our ADSs or ordinary shares if we are treated as a PFIC for any taxable year, including the possibility of making a mark-to-market election.

See the discussion under Item 10. Additional Information E. Taxation U.S. Federal Income Tax Considerations Passive Foreign Investment Company Rules concerning the U.S. federal income tax consequences of an investment in the ADSs or ordinary shares if we are or become classified as a PFIC, including the possibility of making a mark-to-market election.

**ITEM 4. INFORMATION ON THE COMPANY**

A. History and Development of the Company

Leju Holdings Limited was incorporated as our holding company in November 2013 by E-House, a leading real estate services company in China listed on the NYSE at the time. E-House had remained our parent company and controlling shareholder after our initial public offering in April 2014 until December 30, 2016. Substantially all of our operations are conducted through the PRC subsidiaries and consolidated variable interest entities under China Online Housing Technology Corporation, or China Online Housing, Omnigold Holdings Limited, or Omnigold, China E-Real Estate Holdings Limited, or E-Real, and E-House China (Tianjin) Holdings Limited, or E-House Tianjin, each of which became our subsidiary in December 2013 as part of a restructuring by E-House. China Online Housing was incorporated as a joint venture of SINA and E-House in 2008 to operate the SINA real estate and home furnishing website and related business, including online advertising services. China Online Housing became a consolidated subsidiary of E-House in 2009 and a wholly owned subsidiary of E-House in 2012. Omnigold was incorporated by E-House in October 2010 to operate the home furnishing services business and is currently 84% owned by us. E-Real and E-House Tianjin were incorporated by E-House in June 2011 and March 2012, respectively, and are wholly owned by us. E-Real was incorporated to operate the real estate e-commerce business. E-House Tianjin supports our real estate e-commerce business.

Due to PRC legal restrictions on foreign ownership and investment in the internet information services and advertising businesses, we conduct such activities through contractual arrangements with our consolidated variable interest entities in China. Our e-commerce business with respect to new residential properties is operated through our contractual arrangements with Shanghai Yi Xin and its shareholders. Our e-commerce business with respect to home furnishing is operated through our contractual arrangements with Beijing Jiajuju and its shareholders. Our online advertising business for new residential properties websites and our secondary listings business are operated through our contractual arrangements with Beijing Leju and its shareholders. We have entered into, through our PRC subsidiaries, Shanghai SINA Leju, Shanghai Yi Yue and Beijing Maiteng, a series of contractual arrangements with Beijing Leju, Shanghai Yi Xin, Beijing Jiajuju and their respective shareholders. As a result of these contractual arrangements, Leju Holdings Limited, through PRC subsidiaries, is the primary beneficiary of these PRC entities and accounts for them as variable interest entities, and consolidates the financial results of these entities into our financial statements in accordance with U.S. GAAP. For a description of these contractual arrangements, see Item 4. Information on the Company C. Organizational Structure .

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On April 17, 2014, our ADSs commenced trading on the NYSE under the symbol LEJU . We raised from our initial public offering approximately \$101.4 million in net proceeds after deducting underwriting commissions and the offering expenses payable by us. Concurrently with our initial public offering, we also raised from Tencent in a private placement \$18.9 million in net proceeds after deducting estimated fees and expenses payable by us.

### **Our Relationship with E-House**

We had been controlled by E-House until December 30, 2016. Prior to our initial public offering in April 2014, E-House has provided us with accounting, administrative, marketing, internal control, customer service and legal support, and has also provided us with the services of a number of its executives and employees.

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We have entered into agreements with E-House with respect to various ongoing relationships between us. These include a master transaction agreement, an offshore transitional services agreement, an onshore transitional services agreement, a non-competition agreement and an onshore cooperation agreement. See Item 7. Major Shareholders and Related Party Transactions B. Related Party Transactions Transactions and Agreements with E-House and Item 3. Key Information Risk Factors Risk Related to Our Relationships with E-House and SINA .

On or about January 15, 2015, E-House completed a partial spin-off of us by distributing in the form of a dividend of 0.05 ordinary shares, par value \$0.001, of Leju, for each of E-House ordinary shares outstanding as of December 3, 2014, or 0.05 ADSs of Leju, for each of E-House ADSs outstanding as of December 3, 2014. E-House distributed a total of 7,103,280 ordinary shares of Leju to holders of E-House ordinary shares in this manner, which include a total of 3,877,658 ordinary shares of Leju in the form of 3,877,658 ADSs of Leju to E-House ADS holders through the depository bank of E-House. Following the completion of the partial spin-off, E-House owned 93,694,920 ordinary shares of us.

On April 15, 2016, E-House entered into a merger agreement with Parent and E-House Merger Sub Ltd., a wholly owned subsidiary of Parent. Parent is a Cayman Islands company jointly established by Mr. Xin Zhou, SINA and certain other persons, and controlled by Mr. Zhou. On August 12, 2016, E-House Merger Sub Ltd. merged with and into E-House, with E-House continuing as the surviving company and a wholly owned subsidiary of Parent. Following the completion of the merger, E-House ceased to be a reporting company under the Exchange Act and its American depository shares ceased trading on the NYSE.

Concurrent with the closing of the merger, Parent, Mr. Zhou, SINA and certain other shareholders of Parent entered into a shareholders agreement, pursuant to which (a) Parent undertakes, among other things, that it will not, directly or indirectly, dispose of any ordinary shares of Leju owned by E-House without the prior written approval of each of Mr. Zhou and SINA, and (b) during the subsequent 18-month period, Parent has an option to repurchase all the equity interest held by SINA in Parent for a consideration consisting of (i) 30% of the total outstanding ordinary shares of Leju at the time of the repurchase and (ii) a cash payment. On December 30, 2016, Parent exercised the option and repurchased all the ordinary shares held by SINA in Parent, for an aggregate consideration comprised of 40,651,187 ordinary shares of Leju and a cash payment of \$129,038,150. As a result of the foregoing transactions, E-House has ceased to be our controlling shareholder but has remained a principal shareholder of ours. As of March 31, 2018, E-House owned 47,739,363 ordinary shares and 180,925 ADSs of us, representing approximately 35% of our total outstanding ordinary shares.

**Our Relationship with SINA**

Through an agreement entered into between SINA and E-House in 2009, we own SINA's real estate operations. To a large extent, the operations and revenues of our business rely on SINA's cooperation with us. The domain names of some major websites of our business are owned by SINA and licensed to us through agreements which we initially entered into with SINA in 2009 with terms through 2019 and which we amended and restated in 2014 to extend through 2024. A significant number of users of these websites are linked through other SINA websites. Pursuant to an advertising inventory agency agreement with SINA, we are the exclusive agent of SINA for selling advertising to the real estate advertisers through 2024.

Following the going-private transaction of E-House and the repurchase from SINA of ordinary shares in Parent as described under Our Relationship with E-House , SINA has become a principal shareholder of ours. As of March 31, 2018, SINA owned 42,081,187 ordinary shares and 36,687 ADSs of us, representing approximately 31% of our total outstanding ordinary shares. On March 21, 2017, we entered into a registration rights agreement with SINA, which grants SINA the same registration rights with respect to our ordinary shares as those granted to

E-House and Tencent under an investor rights agreement dated March 31, 2014.

### **Our Relationship with Tencent**

On March 10, 2014, we entered into a strategic cooperation agreement with Tencent, a provider of comprehensive internet services serving the largest online community in China. Pursuant to the strategic cooperation agreement, we and Tencent have agreed to jointly develop software and tools for use on Weixin to facilitate our opening of Weixin public accounts associated with real estate projects, which provides real estate information to Weixin users, enable us to better connect with our users through such accounts and expand payment solutions provided to user. We have agreed to adopt Weixin payment solutions as the default payment method for real estate O2O e-commerce transactions conducted by our users on Weixin. We and Tencent have also agreed to explore and pursue additional opportunities for potential cooperation, including but not limited to cooperation involving Tencent's social communications platform, including Weixin, QQ and mobile QQ; the social networking service Qzone; and/or certain other Tencent wholly-owned internet properties in China then in operation. Although the strategic cooperation agreement with Tencent expired in March 2018, our cooperation with Tencent has continued and expanded in scope.



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In March 2014, pursuant to a share purchase and subscription agreement we entered into with E-House and Tencent, Tencent acquired from E-House 19,201,800 of our ordinary shares, or 15% of our total outstanding shares on a fully diluted basis, including all options and restricted shares and any other rights to acquire our shares that were granted and outstanding, for \$180 million in cash. Concurrent with the consummation of our initial public offering, Tencent purchased 2,029,420 ordinary shares from us at a price per ordinary share equal to the initial public offering price per ordinary shares to maintain a 15% equity interest in us on a fully diluted basis as of the consummation of our initial public offering. In connection with the sale of shares to Tencent, we have entered into an investor rights agreement on March 31, 2014 with E-House and Tencent, which grants E-House and Tencent certain registration rights with respect to our ordinary shares owned by them, grants certain board representation rights to Tencent and places certain restrictions on the transfer of our ordinary shares by E-House or Tencent.

See Item 7. Major Shareholders and Related Party Transactions B. Related Party Transactions Transactions and Agreements with Tencent for more information.

**Corporate Information**

Our principal executive offices are located at 15/F, Beijing Shoudong International Plaza, No. 5 Building, Guangqu Home Dongcheng District, Beijing 100022, People's Republic of China. Our telephone number at this address is +86 10 5895 1000. Our registered office in the Cayman Islands is located at the offices of Maples Corporate Services Limited, PO Box 309, Umland House, Grand Cayman, KY1-1104, Cayman Islands. In addition, we have 53 branch offices in mainland China and a branch office in Hong Kong. Our agent for service of process in the United States is Law Debenture Corporate Services Inc., located at 400 Madison Avenue, 4th Floor, New York, New York 10017.

B. Business Overview

**Overview**

We are a leading O2O real estate services provider in China. We offer real estate e-commerce, online advertising and online listing services through our online platform, which comprises local websites covering 377 cities and various mobile applications. We integrate our online platform with complementary offline services to facilitate residential property transactions and home renovation transactions. In addition to our own websites, we also operate various real estate and home furnishing websites of SINA. We had also operated Baidu's real estate and home furnishing websites until December 31, 2015. Moreover, we operate official accounts on Weixin and Weibo.

*E-Commerce.* We offer e-commerce services primarily in connection with new residential property sales. Our O2O services for new residential properties include selling discount coupons and facilitating online property viewing, physical property visits, marketing events and pre-sale customer support. We earn revenue primarily from the sale of discount coupons used for property purchases. We also facilitate transactions on our platform for home furnishing business and earn commissions from merchants based on the value of merchandise sold by them generally.

*Online Advertising.* We currently sell advertising primarily on the SINA new residential properties and home furnishing websites, which are operated by us. We also had similar arrangement with Baidu until December 31, 2015. In addition, we are the exclusive advertising agent for the SINA home page and non-real estate websites with respect to advertising sold to real estate and home furnishing advertisers. We also had the exclusive right to sell Baidu's Brand-Link product for real estate related advertising until December 31, 2015. We earn revenue primarily from advertising sales to property developers and home furnishing suppliers.

*Listing.* We offer fee-based online property listing services to real estate agents and free services to individual property sellers. We currently operate the SINA real estate websites for listings of existing residential properties for sale or lease. We had also operated the Baidu real estate websites for such listing until December 31, 2015.

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We generated total revenues of \$575.8 million, \$559.5 million and \$362.5 million in 2015, 2016 and 2017, respectively. We generated net income of \$34.8 million in 2015 and incurred net loss of \$11.6 million and \$162.0 million in 2016 and 2017, respectively. We had adjusted net income of \$56.9 million and \$8.4 million in 2015 and 2016, respectively, and incurred adjusted net loss of \$106.1 million in 2017. Substantially all of our operations are in China. For information regarding adjusted net income, see Selected Consolidated Financial Data Non-GAAP Financial Measures .

**Our O2O Platform**

We offer multiple online and offline access points for consumers. We reach consumers through our own websites, various websites on *sina.com* which are operated by us, Weibo, Weixin, and various mobile applications. These websites and mobile applications enable us to better reach potential purchasers for whom we are then able to provide our offline services. We also provide complementary offline services to cultivate customer loyalty and ensure superior customer experience.

**Websites**

Our internet presence includes local real estate websites across China that we either operate directly or outsource to local outsourcing partners. These local websites provide region-specific real estate news, information, property data and access to online communities to real estate consumers and participants. We believe our local presence in each of these cities enables us to provide services that are tailored to local conditions, enhancing the attractiveness of our websites to consumer and to advertisers who seek targeted advertising opportunities.

Through our direct operations and outsourcing to local partners we operate websites in every province of China.

We operate the following websites:

- new residential property websites, including *house.sina.com.cn* and *leju.com*, where viewers are automatically directed to a local website with localized information and services, covering 377 cities; on *house.sina.com.cn* and *leju.com*, we offer customers the ability to purchase discount coupons for property purchases;
- existing residential property focused websites, including *esf.sina.com.cn* and *esf.leju.com*, where viewers are automatically directed to a local website with localized information and services, covering over 296 cities; and
- home furnishings websites, including *jiaju.com*, which is a platform for distributors to offer home furnishings to consumers, *jiaju.sina.com.cn*, which offers information with respect to home furnishing, and *7gz.com*

(formerly *qianggongzhang.com*), which is a platform connecting customers with professional contractors; viewers have access to localized information on home furnishing information, offerings and listings of contractors across China through our home furnishing websites.

We sell online advertising on each of our self-operated local websites covering 70 cities. We also outsource 307 local websites to third parties that pay us fixed fees for the right to operate the websites. The amount of user traffic on the websites that we own or operate, our ability to achieve user demographic characteristics that are attractive to advertisers, and our ability to demonstrate such user traffic and demographic characteristics through website traffic tracking tools and reporting systems are important factors in maintaining our advertising revenue from websites that we operate directly and fixed fees from websites that we outsource to third parties. We track such data internally and through third party tracking tools. We identify cities to convert to direct operations on an ongoing basis.

### ***Mobile Applications***

Our major mobile applications include Leju Home Purchase (an upgraded version of Pocket Leju), Leju Er Shou Fang, Fang Niu Jia, Qianggongzhang, contractor version of Qianggongzhang, Lai Ke, and Shou Bo, each of which has version for the iOS and Android operating systems.

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- *Leju Home Purchase*, an upgraded version of *Pocket Leju*, is a comprehensive mobile real estate e-commerce platform. It provides personalized services to consumers and potential buyers of new and existing homes, and potential residential renters. These services include local market news, scheduling home visits, selection, access to purchase discounts, special offer recommendations, local housing price interpretations, purchase guides, property assessment, tax calculation, housing loan calculation and others.
- *Leju Er Shou Fang* provides services to potential home buyers of existing homes and potential residential renters with housing information provided by brokers, as well as housing loan calculation and chat tools.
- *Fang Niu Jia* provides services to brokers, including free calls to targeted clients, promotion of brokers with gold status, clients mortgage loan services, group chat and purchasing tools.
- *Qianggongzhang* is a national mobile platform connecting consumers with professional home furnishing and renovation contractors. It provides personalized renovation information to consumers, including localized information on home furnishing, and offerings and listings of contractors across China.
- Contractor version of *Qianggongzhang* is jointly developed by our renovation team and *Qianggongzhang* platform. It provides a user-friendly means for contractors to effectively monitor and manage renovation projects and construction sites.
- *Lai Ke* is a communication tool between property consultants and potential home buyers. It pushes information to potential home buyers through real-time big data analytics and helps property consultants reach out to targeted clients.
- *Shou Bo* is China's first real estate vertical live streaming platform, which was acquired by Leju in 2017. *Shou Bo* provides users with the latest property and home furnishing information with built-in user interaction function.

On March 10, 2014, we entered into a strategic cooperation agreement with Tencent, a provider of comprehensive internet services serving the largest online community in China. Pursuant to the strategic cooperation agreement, we and Tencent have agreed to jointly develop software and tools for use on Weixin to facilitate our opening of Weixin public accounts associated with real estate projects, which we believe will provide real estate information to Weixin users, enable us to better connect with our users through such accounts and expand payment solutions provided to users. We have agreed to adopt Weixin payment solutions as the default payment method for real estate O2O e-commerce transactions conducted by our users on Weixin. We and Tencent have also agreed to explore and pursue additional opportunities for potential cooperation, including but not limited to cooperation involving Tencent's social communications platform, including Weixin, QQ and mobile QQ; the social

networking service, Qzone ; and/or certain other Tencent wholly-owned internet properties in China then in operation. Although the strategic cooperation agreement with Tencent expired in March 2018, our cooperation with Tencent has continued and expanded in scope. By December 2017, we had opened over 76,000 project-related official accounts on Weixin. In December 2016, we launched various new advertising products based on cross-utilizing databases in cooperation with Tencent that allows for more accurate targeting of customers for our clients in the real estate and home furnishing industries.

In March 2014, we launched our mobile e-commerce platform based on (i) existing mobile applications developed by our company, including Leju Home Purchase (an upgraded version of Pocket Leju ) and Fang Niu Jia , and (ii) Weibo and Weixin, two of China's leading social media platforms. Our mobile platform aims to connect home buyers and developers and real estate agents through mobile devices to allow potential buyers to view detailed information about real estate projects, conduct live chats with sales agents, make appointments for property viewing, reserve individual units, and purchase discount coupons. Our mobile e-commerce platform will also connect real estate sales personnel and agents with potential home buyers and sellers, including through live chat services, in addition to providing updated customer data and analysis and a facility for making appointments for site visits.

In June 2014, we officially launched the first Weixin Home Promotion , using the Weixin platform as an integral part of our mobile e-commerce platform. In July 2014, we upgraded our mobile e-commerce platform to consolidate all of our mobile resources to provide developers with three unique groups of mobile promotional tools, including media channels, communication tools and e-commerce tools, to further enhance mobile marketing for our clients. Since then we have continually added new product offerings on our mobile platform, including various interactive marketing games. In July 2015, we launched an innovative mobile product in cooperation with Didi Chuxing, a leading mobile transportation platform in China, to arrange individual site visits for customers using private cars.

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***Complementary Offline Services***

Our offline services include physical property visits and a call center, which enables our website viewers to contact us or representatives of property developers for information on new residential properties and our services. Our services are also available at developers' show rooms and through real estate brokers. We also organize and conduct offline marketing events for property developers to promote their new residential properties.

**Our Services**

We offer e-commerce services in connection with new residential property sales and home furnishing; online advertising services in connection with new residential property sales and home furnishing; and online listing services for existing residential properties.

***E-Commerce***

Our e-commerce revenue is primarily derived from the sale of discount coupons for new residential properties that are promoted by developers. We commenced the sale of discount coupons from the first quarter of 2012. In addition, since the third quarter of 2012, we have provided third-party merchants of home furnishing and improvement products and services with the ability to reach consumers through our home furnishing platform, *jiaju.com*. Our revenues generated from e-commerce services in 2015, 2016 and 2017 were \$420.6 million, \$419.0 million and \$234.8 million, respectively, representing 73.0%, 74.9% and 64.8%, respectively, of our total revenues for those periods.

***O2O Services for New Residential Properties***

Our O2O offering includes selling discount coupons for new residential properties, facilitating online property viewing and physical property visits, setting up telephone calls between prospective purchasers and representatives of developers, organizing real property exhibitions and promotion events, and facilitating pre-sales customer support provided by developers. Our O2O services can be accessed by prospective purchasers through the real estate website of SINA which we operate and our website, *leju.com*, as well as through our mobile applications. Prospective purchasers can also access our services at show houses for new residential properties and through real estate developers.

**Discount Coupons.** A discount coupon entitles a purchaser to purchase a property from the property developer at a particular development at a discount from the advertised price. Discount coupons can be purchased by prospective property purchasers online at *leju.com* and *house.sina.com.cn*, and their respective local websites as well as offline in showrooms for new property developments. We enter into arrangements with developers whereby we offer O2O services, including the sale of discount coupons, to promote and facilitate property sales. Each such arrangement is specific to a particular development. The arrangement may terminate at a pre-agreed date or continue until all properties at the development have been sold, as agreed in advance by the developer and us. Coupons may expire on a stated expiry date, typically at the end of a promotional period, or when all properties at the development to which the coupon relates have been sold. When a prospective property purchaser purchases a discount coupon as part of our O2O services, the purchaser remits the payment for the coupon to an account maintained by the purchaser with an independent payment platform provider. Upon confirmation from a purchaser or developer that a

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discount coupon is redeemed to purchase property, the payment for the discount coupon is transferred to us. However, if for any reason the coupon is not redeemed, the payment is refunded to the purchaser and we do not earn revenue from the transaction.

The following table sets forth certain operating metrics with respect to our sales of discount coupons for the periods specified.

	<b>Three months ended March 31, 2017</b>	<b>Three months ended June 30, 2017</b>	<b>Three months ended September 30, 2017</b>	<b>Three months ended December 31, 2017</b>
Number of discount coupons issued to prospective purchasers (number of transactions)	43,449	97,282	58,168	47,419
Number of discount coupons redeemed (number of transactions)(1)	18,987	32,670	30,717	31,046



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Note:

(1) The number of discount coupons issued to prospective purchasers that were used by the purchaser to obtain a discount in connection with a property purchase during the period. We recognize revenue from the sale of discount coupons that are redeemed. See Item 5. Operating and Financial Review and Prospects A. Operating Results Critical Accounting Policies .

We have entered into arrangements with China Unionpay to use its payment platform to collect payments for discount coupons. The current term of this agreement will expire in 2019. Either party may terminate the agreement upon 30 days written notice to the other party. Under the agreement, China Unionpay provides customers with the ability to make online or on-site payments.

*Home Furnishing*

Our website, *jiaju.com*, is a business-to-consumer platform that we launched in the third quarter of 2012, through which home furnishing suppliers may offer their products to consumers. We charge distributors a technical services fee in connection for setting up the service and a commission based on the value of products and services sold through our platform. Payments for purchases made on *jiaju.com* are processed by our third-party partner, which allocates such payments to home furnishing suppliers and us in accordance with our pre-agreed arrangements with home furnishing suppliers.

In March 2013, we entered into an agreement with Beijing Jing Dong Century Trading Co., Ltd., or JD.com, pursuant to which we launched The Jing Dong Jiajujiu Building Materials and Furnishings Flagship Store, or the JD Jiajujiu Store, on JD.com's website in October 2013. The JD Jiajujiu Store promotes home furnishing and home improvement products and services that are also promoted on *jiaju.com*. We charge home furnishing suppliers a commission, and we are required to pay JD.com a commission, in each case based on the value of products and services sold by the JD Jiajujiu Store.

*Online Advertising*

The majority of our online advertising revenues are generated from sale of advertising on real estate and home furnishing websites to real estate developers and home furnishing suppliers. Since the second quarter of 2016, we started to generate advertising revenues from our contractor platform 7gz.com. Our revenues generated from advertising services in 2015, 2016 and 2017 were \$134.2 million, \$118.0 million and \$113.2 million, respectively, representing 23.3%, 21.1% and 31.2%, respectively, of our total revenues for those periods.

We currently operate the SINA real estate and home furnishing websites. We had also operated such websites of Baidu until December 31, 2015. In addition, we are the exclusive advertising agent for SINA's home page and non-real estate websites with respect to advertising sold to real estate and home furnishing advertisers. We also had the exclusive right to sell Baidu's Brand-Link product for real estate related advertising until December 31, 2015. We also generated advertising revenues from various other websites and mobile applications such as Weixin, Weibo,

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Toutiao and UC Web during 2017. We earn revenue from the sale of online advertising on each of these websites. Revenues for online advertising are typically based on a fixed fee for the period of the advertising and are recognized ratably. We enter into both short-term and long-term online advertising contracts with advertisers, and we are entitled to prepayment from certain customers while others pay us only after the advertisement has been posted.

In July 2014, we launched *qianggongzhang.com* (now *7gz.com*), an online platform for independent contractors who serve home purchasers in the home renovation and decoration process, by working with city-level operators who aggregate the contractors. Home purchasers in each city can use the website to choose and compare up to three free quotes from individual contractors before selecting a contractor and can rely on third-party inspection companies engaged by us to ensure quality control during and after the renovation and decoration process. We generate revenue from independent contractors and home purchasers.

### *Advertising on SINA Websites*

We operate the SINA real estate website, *house.sina.com.cn*, and the SINA home furnishings website, *jiaju.sina.com.cn*, and we are entitled to all advertising revenues from these websites. In addition, pursuant to an agency agreement with SINA, we are the exclusive advertising agent of the SINA homepage and non-real estate websites, for advertising sold to real estate and home furnishing advertisers. We are entitled to 85% of the revenue derived from advertising on these other websites. Leveraging SINA's strong brand recognition, market influence in China's online space and its large user base, we help real estate advertisers reach their target audiences in many of China's major cities. Real estate advertisers primarily include real estate developers, agents and brokers as well as suppliers and providers of home furnishing and improvement products and services.

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Furthermore, as the exclusive real estate advertising agency for SINA non-real estate websites, we facilitate advertising by our real estate advertising clients on the SINA real estate websites as well as non-real estate websites. Real estate advertising offerings on SINA websites include online advertising and sponsorship arrangements. Online advertising arrangements allow advertisers to place advertisements on particular areas of SINA websites, in particular formats, such as banners and text links, and over particular periods of time. Sponsorship arrangements allow advertisers to sponsor a particular area on SINA websites in exchange for a fixed payment over the contract period. Real estate advertising on SINA websites also includes revenue from outsourcing arrangements with local business partners. Revenues from outsourcing arrangements are on a fixed fee and recognized ratably over the term of the contract.

We and SINA have entered into a number of agreements governing our relationship with SINA, including an advertising inventory agency agreement, an amended and restated domain name and content license agreement, an amended and restated trademark license agreement and an amended and restated software license and support services agreement. For descriptions of these agreements, see Item 7. Major Shareholders and Related Party Transactions B. Related Party Transactions Transactions and Agreements with SINA .

### *Advertising on Baidu Websites*

We had been the exclusive real property advertising partner of Baidu, China's leading search engine platform, from 2010 to 2015. In August 2010, we launched the Baidu real estate website, house.baidu.com, and home furnishing website, jiaju.baidu.com. We earn revenue from the sale of search-based advertising on these websites. Pursuant to our original strategic cooperation agreement with Baidu, we had the exclusive right, through March 31, 2015, to build and operate all Baidu websites related to real estate and home furnishing, and to retain all advertising revenues generated from these websites in exchange for a fixed fee that we pay to Baidu in two installments per year. In August 2011, we expanded our strategic partnership with Baidu, pursuant to which we became Baidu's premier strategic online real estate partner and obtained the exclusive right, through March 2015, to sell Baidu's real estate Brand-Link product to advertisers. In addition, we and Baidu had also continued our cooperation in several other Baidu products, including Baidu Connect on mobile devices, to further expand the online search-based advertising market for the real estate industry. In March 2015, we and Baidu agreed to extend the term of our strategic cooperation for another nine months through December 2015. We did not renew the strategic partnership with Baidu upon the expiration of the cooperation in December 2015, but continue to work with Baidu as our product partner.

### *Listing*

We offer online residential listing services for sales and leases of existing residential properties. Our listing services are currently offered in 9 cities where we maintain a local sales force and in an additional 287 cities where we allow real estate agents to use our platform to post their listings. Our revenues generated from online listing services in 2015, 2016 and 2017 were \$21.0 million, \$22.5 million and \$14.5 million, respectively, representing 3.7%, 4.0% and 4.0%, respectively, of our total revenues for those periods. Real estate agents and property owners use our listing services. Payment of the listing fees entitles them to post multiple listings for properties over the subscription period. Our listing subscription contracts are typically for a term of up to one year with fixed fees payable on a monthly basis. The subscription fees are generally fixed and vary from city to city. We also provide free listing services to individual property sellers selling existing residential properties. Our listing customers submit property listings by logging on to our platform directly. Once a listing has been uploaded to our website, it can be viewed for free by visitors to our website. All visitors to our website have access to listing information free of charge, 24-hours a day. With respect to listings submitted by agents or brokers, the name of the agent or broker appears as a link, offering viewers access to additional listings promoted by the same agent or broker.

**Brand Promotion**

We employ a variety of marketing and brand promotion methods to enhance our brand recognition and attract developer clients and real estate purchasers, including advertising arrangements and the Leju Membership Club. Membership in the Leju Membership Club is free. Users can sign up to join the Leju Membership Club online at our website, *leju.com*, and become members following email or phone number confirmation through text message.

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We conduct advertising activities in 70 cities where we directly operate local websites through promotional events for developers and other industry participants, including industry award ceremonies, panel discussions and similar events.

**Sales and Marketing**

Most of our new home advertising revenue and home furnishing advertising revenue is derived from our direct sales force. We also derive new home and home furnishing advertising revenue from sales through third party advertising agencies.

We have built a sales and marketing team that is experienced in the online advertising, internet and real estate industries. Our sales and marketing team comprised 23% personnel as of December 31, 2017. Our sales and marketing personnel work closely with our customers in local markets and help us gain insight into developments in these local markets, the competitive landscape and new market opportunities, which help us set our prices and strategies for each locality.

To motivate our sales and marketing personnel, a majority of their compensation consists of performance incentives such as commissions and bonuses. Sales quotas are assigned to all sales personnel according to monthly, quarterly and annual sales plans. In addition, we have adopted a merit-based promotion system to motivate our sales personnel.

**Seasonality**

The real estate sector in China is characterized by seasonal fluctuations, which may cause our revenues to fluctuate significantly from quarter to quarter. The first quarter of each year generally contributes the smallest portion of our annual revenues due to reduced real estate transactions, advertising and marketing activities of our customers in the PRC real estate industry during and around the Chinese New Year holiday, which generally occurs in January or February of each year and due to the cold winter weather in northern China. In contrast, the third and fourth quarters of each year generally contribute a larger portion of our annual revenues due to increased real estate transaction, advertising and marketing activity during the months of September and October.

**Competition**

We face competition from other companies in each of our primary business activities. We compete with these companies primarily on our ability to attract consumers to our websites. We compete for consumers principally on the basis of the quality and quantity of real estate listings and other information content and services. We also compete for developers' business on the basis on website traffic volume, consumer loyalty, geographic coverage and service offerings. We also compete for qualified employees with skills and experience related to sales, real estate services, advertising, technology and the internet industry. Our largest competitor at the national level is *fang.com*, formerly *soufun.com*, with which we compete on all of our business lines. We also face various other competitors with whom we may compete on one or more lines of business. For example, we compete with providers for online property listings, including 58.com, which acquired anjuke.com in 2015, and compete with mobile-based providers of news, such as Toutiao.com, for our online advertising business. In addition, we have faced and may continue to face competition from regionally focused websites providing regional real estate listings together with localized services, such as

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*house365.com* in the Nanjing market. Our competitors may have more established brand names, larger visitor numbers and more extensive distribution channels than we do, either overall, or in specific regions in which we operate. We also compete with traditional advertising media such as general-purpose and real estate-focused newspapers, magazines, television and outdoor advertising that compete for spending on real estate advertising and listings.

Some of our competitors may have greater access to capital markets, more financial and other resources and a longer operating history than us. For instance, major general-purpose websites, which provide real estate and real estate-related information services, may have an advantage over us due to their more established brand name, larger user base and extensive internet distribution channels.

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**Technology**

To better serve our customers, we have utilized our key proprietary technologies and developed a technology infrastructure that is specifically used for our real estate and home related internet website services. The key components of our technology platform include:

- *Search platform.* Our search platform is designed to support targeted searches of our listing databases. Besides the key word search function, our search platform provides additional search functions that improve search accuracy with various search criteria, including searches based on the location, price and type of the property. In addition, our search engine is able to refine the search by conditional filtering and aggregation of the search results.
- *Large-scale system infrastructure.* With a combination of proprietary in-house and third-party solutions, we have designed our system to handle large amounts of data flow with a high degree of scalability and reliability. We use parallel computing technology and clusters of low-cost computers to handle high-volume visitor traffic and process large amounts of information.
- *Anti-fraud and anti-spam technology.* We have anti-fraud technology incorporated in our IT systems with a view to addressing the potential for non-compliant activities at our local branch offices. We maintain advertising price and discount data in our customer relationship management master file. Our system automatically triggers a risk alert for any deviation from pre-set discounts, in which case, a pre-approval email from our headquarters is required. Our system also generates a weekly report of any such exceptions for review by our headquarters. We also have an anti-spam system through which we are able to detect identify and filter spam messages with a view to protecting our staff. We attempt to continuously improve the accuracy and effectiveness of our technology through machine-learning capability and customizable rules.

We maintain our servers and backup servers in Beijing and Guangzhou. We believe our server hosting partners provide significant operating advantages, including high-quality bandwidth, constant room temperature and an enhanced ability to protect our systems from power loss, break-ins and other external causes of service interruption. We have not experienced any material system failures.

**Insurance**

We maintain property insurance to cover potential damages to a portion of our property. In addition, we provide medical, unemployment and other insurance to our employees in compliance with applicable laws, rules and regulations. We do not maintain insurance policies covering losses relating to our systems and do not have business interruption insurance.

## **Regulation**

We are subject to a number of laws and regulations in China relating to real estate service companies. This section summarizes the principal PRC laws and regulations that are currently applicable to our business and operations.

### *General*

The telecommunications industry, including internet information services, is highly regulated by the PRC government. Regulations issued or implemented by the State Council, the MIIT and other relevant government authorities cover virtually every aspect of telecommunications network operations, including entry into the telecommunications industry, the scope of permissible business activities, tariff policy and foreign investment.

The MIIT, under the leadership of the State Council, is responsible for, among other things:

- formulating and enforcing telecommunications industry policy, standards and regulations;
- granting licenses to provide telecommunications and internet services;
- formulating tariff and service charge policies for telecommunications and internet services;
- supervising the operations of telecommunications and internet service providers; and



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- maintaining fair and orderly market competition among operators.

In addition to the regulations promulgated by the central PRC government, some local governments have also promulgated local rules applicable to internet companies operating within their respective jurisdictions.

In 1994, the Standing Committee of the National People's Congress promulgated the PRC Advertising Law. In addition, the SAIC and other ministries and agencies have issued regulations that further regulate our advertising business, as discussed below.

***Restrictions on Foreign Investment in the Value-Added Telecommunication Industry and Advertising Industry***

***Restrictions on Foreign Investment in the Value-Added Telecommunication Industry***

In September 2000, the State Council promulgated the Telecommunications Regulations, which categorize all telecommunications businesses in China as either basic telecommunications businesses or value-added telecommunications businesses. According to the Classification of Telecommunications Business effective March 1, 2016, internet information services are classified as value-added telecommunications businesses.

The State Council promulgated the Administrative Rules on Foreign-invested Telecommunications Enterprises in December 2001, as amended in September 2008 and February 2016, or the FITE Regulations. The FITE Regulations set forth detailed requirements with respect to capitalization, investor qualifications and application procedures in connection with the establishment of a foreign-invested telecommunications enterprise. Pursuant to these administrative rules, the ultimate capital contribution ratio of the foreign investor or investors in a foreign-invested telecommunications enterprise that aims to provide value-added telecommunications services may not exceed 50.0%. In addition, pursuant to the Foreign Investment Industrial Guidance Catalogue issued by the PRC government, the permitted foreign investment in value-added telecommunications service providers may not be more than 50%. However, for a foreign investor to acquire any equity interest in a value-added telecommunications business in China, it must satisfy a number of stringent performance and operational experience requirements, including demonstrating a track record and experience in operating a value-added telecommunications business overseas. Moreover, foreign investors that meet these requirements must obtain approvals from the MIIT and the MOC or their authorized local counterparts, which retain considerable discretion in granting approvals.

In July 2006, the MIIT publicly released the Notice on Strengthening the Administration of Foreign Investment in Operating Value-added Telecommunications Business, or the MIIT Notice, which reiterates certain provisions under the FITE Regulations. According to the MIIT Notice, if any foreign investor intends to invest in a PRC telecommunications business, a foreign-invested telecommunications enterprise must be established and such enterprise must apply for the relevant telecommunications business licenses. Under the MIIT Notice, domestic telecommunications enterprises are prohibited from renting, transferring or selling a telecommunications license to foreign investors in any form, and from providing any resources, premises, facilities and other assistance in any form to foreign investors for their illegal operation of any telecommunications business in China.

*Regulation relating to Our Business*

*Internet Information Services*

*General*

The provision of real estate and home-related and other content on internet websites is subject to applicable PRC laws, rules and regulations relating to the telecommunications industry and the internet, and regulated by various government authorities, including the MIIT and the SAIC. Under the applicable regulations, internet information services are classified as value-added telecommunications businesses, and a commercial operator must obtain an ICP license from the MIIT or its relevant provincial counterparts in order to carry out commercial internet information service operations in China. If an internet information service provider is not engaged in commercial internet information service, it is only required to file a record with the MIIT or its relevant provincial counterparts. In addition, the regulations also provide that operators involved in internet content provision in sensitive and strategic sectors, including news, publishing, education, health care, medicine and medical devices, must obtain additional approvals from the relevant authorities in relation to those sectors.

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In compliance with these laws and regulations, Beijing Leju, our consolidated variable interest entity, Beijing Yisheng Leju Internet Technology Co., Ltd., a subsidiary of our consolidated variable interest entity Beijing Jiajujiu, and Shanghai Yi Xin, our consolidated variable interest entity, each hold a valid ICP license issued by the local provincial branch of the MIIT for the operation of our value-added telecommunication business.

The MIIT Notice requires that a value-added telecommunications business operator (or its shareholders) must own domain names and trademarks used by it in the value-added telecommunications business, and have premises and facilities appropriate for such business. To comply with the MIIT Notice, Beijing Leju, a consolidated variable interest entity, has been registered as the owner or is applying to be the owner of the Chinese and English dual-language Leju trademark in several categories and has obtained the domain names of *leju.com* and *leju.cn*. Beijing Yisheng Leju Online Technology Co., Ltd., a subsidiary of our consolidated variable interest entity Beijing Jiajujiu, has registered the domain name of *jiaju.com*.

### *Network Publication Service License*

According to the Provisions on Network Publication Service Administration, jointly issued by the GAPPRT and the MIIT in February 2016, all entities that are engaged in network publication service in China must obtain the Network Publication Service License from the GAPPRT. Network publication service is broadly defined in the Provisions on Network Publication Service Administration Regulation as the use of information networks to provide the public with digital works that have characteristics of publication such as editing, creation or processing. Our consolidated variable interest entities and their subsidiaries do not have network publication licenses. For content which we believe are subject to the requirements of these licenses, such content is hosted by SINA through our contractual arrangement with SINA. In the case that SINA does not possess the necessary licenses and permits, our content hosted by SINA is subject to the risk of being suspended by government authorities. Moreover, we cannot assure you that government would not require us to obtain these licenses separately for operation of our own websites and those websites licensed to us even if the underlying hosting of the relevant content is provided by a qualified third party. See Item 3. Key Information D. Risk Factors Risks related to Our Business If we fail to obtain or keep licenses, permits or approvals applicable to the various online real estate services provided by us, we may incur significant financial penalties and other government sanctions .

### *Online Transmission of Audio-Visual Programs*

The GAPPRT and the MIIT jointly promulgated the Administrative Provisions on Internet Audio-visual Program Service, or the Audio-visual Program Provisions, effective January 2008 and amended in August 2015. The Audio-visual Program Provisions apply to the provision of audio-visual program services to the public via internet (including mobile network) within the territory of China. Providers of internet audio-visual program services are required to obtain a License for Online Transmission of Audio-visual Programs issued by the GAPPRT or complete certain registration procedures with the GAPPRT. Providers of internet audio-visual program services are generally required to be either state-owned or state-controlled by the PRC government, and the business to be carried out by such providers must satisfy the overall planning and guidance catalog for internet audio-visual program services determined by the GAPPRT. In May 2008, the GAPPRT issued a Notice on Relevant Issues Concerning Application and Approval of License for Online Transmission of Audio-visual Programs, as amended in August 2015, which further sets forth detailed provisions concerning the application and approval process regarding the License for Online Transmission of Audio-visual Programs. The notice also provides that providers of internet audio-visual program services who engaged in such services prior to the promulgation of the Audio-visual Program Provisions shall also be eligible to apply for the license so long as their violation of the laws and regulations (if any) is minor and can be rectified timely and they have no record of violation during the latest three months prior to the promulgation of the Audio-visual Program Provisions. In April 2010, the GAPPRT issued the Internet Audio/Visual Program Services Categories (Provisional), as amended in March 2017, which classified internet audio-visual programs into four categories. Our consolidated variable interest entities and their subsidiaries do not have Licenses for Online Transmission of Audio-visual Programs. For content which we believe are subject to the requirements of these licenses, such content is hosted by SINA through our contractual arrangement with SINA. In the case that SINA does not possess the necessary licenses and permits, our content hosted by SINA is subject to the risk of being suspended by

government authorities. Moreover, we cannot assure you that government would not require us to obtain these licenses separately for operation of our own websites and those websites licensed to us even if the underlying hosting of the relevant content is provided by a qualified third party. See Item 3. Key Information D. Risk Factors Risks related to Our Business If we fail to obtain or keep licenses, permits or approvals applicable to the various online real estate services provided by us, we may incur significant financial penalties and other government sanctions .

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*Regulations relating to Information Security and Confidentiality of User Identity and Information*

Internet content in China is also regulated and restricted from a state security standpoint. Pursuant to the Decision Regarding the Protection of Internet Security enacted by the Standing Committee of the National People's Congress, any effort to undertake the following actions may be subject to criminal punishment in China:

- gain improper entry into a computer or system of national strategic importance;
- disseminate politically disruptive information;
- leak government secrets;
- spread false commercial information; or
- infringe intellectual property rights.

The Ministry of Public Security has also promulgated measures that prohibit the use of the internet in ways that, among other things, result in the leakage of government secrets or the spread of socially destabilizing content. The Ministry of Public Security and its local counterparts have supervision and inspection powers in this regard, and we may be subject to the jurisdiction of the local security bureaus. If an internet information service provider violates these measures, the PRC government may revoke its license and shut down its website. To comply with these laws and regulations, we require our users to accept the user terms or service agreement for registration with, and use of, our websites, whereby they agree to comply with the applicable PRC laws and regulations in using our websites, and we also maintain constant surveillance and monitoring on the information posted on our websites. However, the measures we take may not be adequate to ensure that all the information posted on our websites are in compliance with these laws and regulations. See Item 3. Key Information D. Risk Factors Risks related to Our Business Regulation of the internet industry in China, including censorship of information distributed over the internet, may materially and adversely affect our business .

The security and confidentiality of information on the identity of internet users are also regulated in China. The Internet Information Service Administrative Measures promulgated by the PRC State Council require internet information service providers to maintain an adequate system that protects the security of user information. In December 2005, the Ministry of Public Security promulgated the Regulations on Technical Measures of Internet Security Protection, requiring internet service providers to utilize standard technical measures for internet security protection. Moreover, the Rules for Regulating the Market Order of Internet Content Services enhance the protection of internet users' personal information by prohibiting internet information service providers from unauthorized collection, disclosure or use of personal information of their users. In December 2012, the Standing Committee of the National People's Congress passed the Decision on Strengthening Internet Information Protection, which provides that all internet service providers in China, including internet information service providers, should require their users to provide real identity information when entering into service agreements or providing services to the users. In July 2013, the MIIT issued

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Provisions on Protecting Personal Information of Telecommunication and Internet Users, under which Internet information service providers are subject to strict requirements to protect personal information of internet users. The internet information service providers are prohibited from collecting personal information of internet users without obtaining consent from the users. Personal information collected shall be used only in connection with the services to be provided by Internet information service providers to such users and shall be kept in strict confidence. To comply with these laws and regulations, we require our users to accept the user terms or service agreement for registration with and use of our websites whereby they agree to provide certain personal information to us and agree to our use of their provided personal information under certain agreed circumstances, and we have established information security systems to protect users' privacy. In May 2017, the Supreme People's Court and the Supreme People's Procuratorate released the Interpretations of the Supreme People's Court and the Supreme People's Procuratorate on Several Issues Concerning the Application of Law in the Handling of Criminal Cases Involving Infringement of Citizens' Personal Information, or the Interpretations, effective June 2017. The Interpretations provide more practical conviction and sentencing criteria for the infringement to citizens' personal information.

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*Advertising Services*

The SAIC is responsible for regulating advertising activities in China. Pursuant to applicable regulations, companies that engage in advertising activities in China must obtain from the SAIC or its local branches a business license which specifically includes operating an advertising business within its business scope. Companies conducting advertising activities without such a license may be subject to penalties, including fines, confiscation of illegal revenues and orders to cease advertising operations. The business license of an advertising company is valid for the duration of its existence, unless the license is suspended or revoked due to a violation of any relevant law or regulation.

The business scope of the business licenses of Beijing Leju and its subsidiaries includes operating an advertising business, which allows them to engage in the advertising business.

PRC advertising laws and regulations also set forth certain content requirements for advertisements in China including, among other things, prohibitions on false or misleading content, superlative wording, socially destabilizing content or content involving obscenities, superstition, violence, discrimination or infringement of the public interest. Advertisers, advertising agencies, and advertising distributors are required by PRC advertising laws and regulations to ensure that the content of the advertisements they prepare or distribute is true and in full compliance with applicable law. In providing advertising services, advertising operators and advertising distributors must review the supporting documents provided by advertisers for advertisements and verify that the content of the advertisements complies with applicable PRC laws and regulations. Prior to distributing advertisements that are subject to government censorship and approval, advertising distributors are obligated to verify that such censorship has been performed and approval has been obtained. Violation of these regulations may result in penalties, including fines, confiscation of advertising income, orders to cease dissemination of the advertisements and orders to publish an advertisement correcting the misleading information. In circumstances involving serious violations, the SAIC or its local branches may revoke violators' licenses or permits for their advertising business operations. To comply with these laws and regulations, we maintain a task force to review the advertising materials to ensure the content does not violate the relevant laws and regulations before displaying such advertisements, and we also request relevant advertisers to provide proof of governmental approval if an advertisement is subject to special government review.

*Regulations relating to Real Estate Brokerage Business*

The principal regulations governing the real estate brokerage business in China include the Law on Administration of the Urban Real Estate issued by the Standing Committee of National People's Congress in July 1994 and revised in August 2009, and the Administrative Measures for Real Estate Brokerage issued in January 2011 and amended in March 2016. Pursuant to these laws, a company must register with local offices of the SAIC in each locality where it does business in order to operate real estate brokerage business. In addition, a real estate brokerage company and its branches shall file with the local real estate administrative authority within 30 days after it obtains the business license.

The previous Foreign Investment Industrial Guidance Catalogue issued in 2011 classified the real estate agency and brokerage services within the restricted category for foreign investment. Accordingly, a wholly foreign-owned enterprise in China was required to obtain approval from the MOC or its local counterpart in order to establish or invest in any subsidiary to engage real estate agency and brokerage services. The National Development and Reform Commission and the MOC issued a new Foreign Investment Industrial Guidance Catalogue, effective April 2015. The new Foreign Investment Industrial Guidance Catalogue removed the real estate agency and brokerage services from the restricted category. Accordingly, the establishment of or the investment in a subsidiary to engage in real estate agency and brokerage services is no longer subject to the approval of the MOC or its local counterparts.

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We mainly use City Rehouse and its subsidiaries to provide support for our e-commerce business. Each subsidiary of City Rehouse has obtained and maintained a business license with such business scope, and 20 of our PRC operating entities have completed the filing with the competent local real estate administrative authorities. See Item 3. Key Information D. Risk Factors Risks Related to Doing Business in China Failure to obtain the approvals or complete the filings required for our real estate agency and brokerage business in China may limit our ability to provide real estate agency and brokerage services or establish new PRC operating entities .



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***Regulations relating to Trademarks***

Both the PRC Trademark Law and the Implementation Regulation of the PRC Trademark Law, as currently in effect, provide protection to the holders of registered trademarks and trade names. The PRC Trademark Office handles trademark registrations and grants a renewable term of rights of ten years to registered trademarks. In addition, trademark license agreements must be filed with the PRC Trademark Office.

After receiving a trademark registration application, the PRC Trademark Office will make a public announcement with respect to the proposed trademark registration application if the relevant trademark passes the preliminary examination. Any person may, within three months after such public announcement, object to such trademark application. The PRC Trademark Office will then decide who is entitled to the trademark registration, and its decisions may be appealed to the PRC Trademark Review and Adjudication Board, whose decision may be further appealed through judicial proceedings. If no objection is filed within three months after the public announcement period or if the objection has been overruled, the PRC Trademark Office will approve the registration and issue a registration certificate, upon which the trademark is registered and will be effective for a renewable ten-year period, unless otherwise revoked. As of December 31, 2017, we owned or licensed 295 registered trademarks in China, and had 48 trademark applications in various industry categories pending with the China Trademark Office.

***Regulations relating to Employment***

Under the PRC Labor Law, PRC Labor Contract Law and its implementing rules, employers must enter into written labor contracts with full-time employees. All employers must compensate their employees with wages equal to at least the local minimum wage standards. Employers in China are required to provide employees with welfare schemes covering pension insurance, medical insurance, work-related injury insurance, unemployment insurance, maternity insurance and housing funds. Employers in most cases are also required to provide a severance payment to their employees after their employment relationships are terminated. We have caused all of our full-time employees to enter into written labor contracts with us and provide our employees with the proper welfare and employment benefits.

Pursuant to the PRC Labor Contract Law and its amendments, dispatched employees are intended to be a supplementary form of employment and shall only apply to provisional, auxiliary or substitutive positions, and the fundamental form should be direct employment by enterprises and organizations that require employees. It is expressly stated that the number of dispatched employees an employer uses may not exceed a certain percentage of its total labor force. The Interim Provisions on Labor Dispatch effective March 2014, further set such percentage at 10% and provide a two-year transitional period for compliance with such requirement. Failure to comply with these requirements may result in orders of rectification and imposition of fines. See Item 3. Key Information D. Risk Factors Risks Related to Our Business Increases in labor costs in China may adversely affect our business and our profitability .

***Regulations relating to Foreign Exchange Control and Administration***

***Foreign Exchange Administration***

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The principal regulation governing foreign currency exchange in China is the Regulations of the PRC on Foreign Exchange Administration, as amended in August 2008. Under the Regulations of the PRC on Foreign Exchange Administration and other relevant PRC regulations and rules, the Renminbi is convertible into other currencies for the purpose of current account transactions, including the distribution of dividends, interest payments, trade and service-related foreign exchange transactions. The conversion of the Renminbi into other currencies and remittance of the converted foreign currency outside China for capital account transactions, such as capital injections, loans, repatriation of investments and investments in securities outside China, requires the prior approval from, or registration with, SAFE or its local branches.

As an offshore holding company with PRC subsidiaries, we may (i) make additional capital contributions to our PRC subsidiaries; (ii) establish new PRC subsidiaries and make capital contributions to these new PRC subsidiaries; (iii) make loans to our PRC subsidiaries or consolidated variable interest entities; or (iv) acquire offshore entities with business operations in China in an offshore transaction. However, most of these uses are subject to PRC regulations and approvals, such as:

- capital contributions to our PRC subsidiaries that operate in the industries that fall within the restricted category for foreign investment must be approved by the MOC or its local counterparts;

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- loans by us to our PRC subsidiaries cannot exceed the statutory limit which is the difference between the amount of total investment and the amount of registered capital of such subsidiaries as approved by the MOC or its local counterpart or the limit calculated by the approach set forth in the Notice of Matters Concerning the Macro-Prudential Management of Full-Covered Cross-Border Financing issued by the People's Bank of China in January 2017, and must be registered with SAFE or its local branches; and
- loans by us to our consolidated variable interest entities must be filed with the National Development and Reform Commission and must also be registered with SAFE or its local branches.

Under SAFE Circular 19, effective June 2015, a foreign-invested enterprise may choose to convert its registered capital from foreign currency to Renminbi on a self-discretionary basis, and the Renminbi capital converted can be used for equity investments within China, which will be regarded as the reinvestment of foreign-invested enterprise. In addition, SAFE Circular 19 prohibits a foreign-invested enterprise from using Renminbi funds converted from its foreign currency registered capital to provide entrustment loans or repay loans borrowed from non-financial enterprises. Violation of these circulars could result in severe penalties, including heavy fines. These circulars may limit our ability to transfer funds to our consolidated variable interest entities and the subsidiaries of our wholly foreign-owned subsidiaries in China, and we may not be able to convert foreign currency-denominated funds into Renminbi to invest in or acquire any other PRC companies, or establish other consolidated variable interest entities in China. See Item 3. Key Information D. Risk Factors Risks Related to Doing Business in China PRC regulation of loans and direct investment by offshore holding companies to PRC entities may delay or prevent us from making loans or additional capital contributions to our PRC operating subsidiaries .

In November 2012, SAFE promulgated the Circular of Further Improving and Adjusting Foreign Exchange Administration Policies on Foreign Direct Investment, or SAFE Circular 59, as amended in May 2015, which substantially amends and simplifies the then current foreign exchange procedures. Under SAFE Circular 59, the opening of various special purpose foreign exchange accounts (e.g. pre-establishment expenses account, foreign exchange capital account, guarantee account) no longer requires approval by SAFE. Reinvestment of Renminbi proceeds by foreign investors in China no longer requires SAFE approval or verification.

In May 2013, SAFE promulgated the Circular on Printing and Distributing the Provisions on Foreign Exchange Administration over Domestic Direct Investment by Foreign Investors and the Supporting Documents, which specifies that the administration by SAFE or its local branches over direct investment by foreign investors in China shall be conducted by way of registration. Institutions and individuals shall register with SAFE and/or its local branches for their direct investment in China. Banks shall process foreign exchange business relating to the direct investment in China based on the registration information provided by SAFE and its branches.

In February 2015, SAFE promulgated the Circular of Further Simplifying and Improving the Policies of Foreign Exchange Administration Applicable to Direct Investment, or SAFE Circular 13, effective June 2015. Under SAFE Circular 13, the current foreign exchange procedures will be further simplified, and foreign exchange registrations of direct investment will be handled by banks instead of SAFE and its branches.

In January 2017, SAFE promulgated SAFE Circular 3, which stipulates several capital control measures on the outbound remittance of profit from domestic entities to offshore entities, including: (i) under the principle of genuine transaction, banks must check board resolutions regarding profit distribution, original version of tax filing records and audited financial statements; and (ii) domestic entities must hold income to account for previous years' losses before remitting the profits.

*Foreign Exchange Registration of Offshore Investments by PRC Residents*

SAFE Circular 75 requires PRC residents to register with the relevant local branch of SAFE before establishing or controlling any company outside China, referred to as an offshore special purpose company, for the purpose of raising funds from overseas to acquire or exchange the assets of, or acquiring equity interests in, PRC entities held by such PRC residents and to update such registration in the event of any significant changes with respect to that offshore company. SAFE promulgated SAFE Circular 37 in July 2014, which replaced SAFE Circular 75. SAFE Circular 37 requires PRC residents to register with local branches of SAFE in connection with their direct establishment or indirect control of an offshore entity, for the purpose of overseas investment and financing, with such PRC residents' legally owned assets or equity interests in domestic enterprises or offshore assets or interests, referred to in SAFE Circular 37 as a special purpose vehicle. The term control under SAFE Circular 37 is broadly defined as the operation rights, beneficiary rights or decision-making rights acquired by the PRC residents in the offshore special purpose vehicles by such means as acquisition, trust, proxy, voting rights, repurchase, convertible bonds or other arrangements. SAFE Circular 37 further requires amendment to the registration in the event of any changes with respect to the basic information of the special purpose vehicle, such as changes in a PRC resident individual shareholder, name or operation period; or any significant changes with respect to the special purpose vehicle, such as increase or decrease of capital contributed by PRC individuals, share transfer or exchange, merger, division or other material event. If the shareholders of the offshore holding company who are PRC residents do not complete their registration with the local SAFE branches, the PRC subsidiaries may be prohibited from distributing their profits and proceeds from any reduction in capital, share transfer or liquidation to the offshore company, and the offshore company may be restricted in its ability to contribute additional capital to its PRC subsidiaries. Moreover, failure to comply with the SAFE registration and amendment requirements described above could result in liability under PRC law for evasion of applicable foreign exchange restrictions.

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We have requested our beneficial owners who are PRC residents to make the necessary applications, filings and amendments required by SAFE. However, we cannot provide any assurances that all of our beneficial owners who are PRC residents will continue to make, obtain or amend any applicable registrations or approvals required by these SAFE regulations. The failure or inability of our PRC resident beneficial owners to comply with the registration procedures set forth therein may subject us to fines and legal sanctions, restrict our cross-border investment activities, or limit our ability to contribute additional capital into our PRC subsidiaries, or limit our PRC subsidiaries' ability to pay dividends or make other distributions to our company or otherwise adversely affect our business. Moreover, failure to comply with the SAFE registration requirements could result in liability under PRC laws for evasion of foreign exchange restrictions.

***Foreign Exchange Registration of Employee Stock Incentive Plans***

In February 2012, SAFE issued the Stock Option Rules, which replaced the Application Procedures of Foreign Exchange Administration for Domestic Individuals Participating in Employee Stock Ownership Plans or Stock Option Plans of Overseas Publicly-Listed Companies issued by SAFE in March 2007. Under the Stock Option Rules, a PRC entity's directors, supervisors, senior management officers, other staff or individuals who have an employment or labor relationship with a PRC entity and are granted stock options by an overseas publicly listed company are required, through a qualified PRC domestic agent which could be a PRC subsidiary of such overseas publicly listed company, to register with SAFE and complete certain other procedures. Such PRC resident participants must also retain an overseas entrusted institution to handle matters in connection with their exercise of stock options, purchase and sale of corresponding stocks or interests, and fund transfer. The PRC agent shall, among other things, file on behalf of such PRC resident participants an application with SAFE to conduct the SAFE registration with respect to such stock incentive plan and obtain approval for an annual allowance with respect to the purchase of foreign exchange in connection with the exercise or sale of stock options or stock such participants hold. In addition, the PRC agent is required to amend the SAFE registration with respect to the stock incentive plan if there is any material change to the stock incentive plan, the PRC agent or the overseas entrusted institution or other material aspects. Such participating PRC residents' foreign exchange income received from the sale of stock and dividends distributed by the overseas publicly-listed company must be fully remitted into a PRC collective foreign currency account opened and managed by the PRC agent before distribution to such participants. We and our PRC resident employees who have been granted stock options or other share-based incentives of our company are subject to the Stock Option Rules as our company has become an overseas listed company upon the completion of initial public offering. If we or our PRC resident participants fail to comply with these regulations in the future, we and/or our PRC resident participants may be subject to fines and legal sanctions.

***Regulations relating to Dividend Distributions***

Under applicable regulations, wholly foreign-owned enterprises in China may pay dividends only out of their accumulated profits, if any, as determined in accordance with PRC accounting standards and regulations. In addition, a wholly foreign-owned enterprise in China is required to set aside at least 10% of its after-tax profit based on PRC accounting standards each year to its general reserves until its cumulative total reserve funds reaches 50% of its registered capital. These reserve funds, however, may not be distributed as cash dividends.

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C. Organizational Structure

The following diagram illustrates our corporate structure, including our principal subsidiaries and variable interest entities as of March 31, 2018.

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Note:

(1) Beijing Yisheng Leju Information Services Co., Ltd., or Beijing Leju, is a variable interest entity established in China in 2008 and is currently 80% owned by Mr. Xudong Zhu and 20% owned by Mr. Yinyu He, and each of Shanghai Yi Xin E-Commerce Co., Ltd., or Shanghai Yi Xin and Beijing Jiajujiu E-Commerce Co., Ltd., or Beijing Jiajujiu is a variable interest entity established in China in 2011 and is currently 70% owned by Mr. Yinyu He and

30% owned by Mr. Weijie Ma. We effectively control Beijing Leju, Shanghai Yi Xin and Beijing Jiajuju through contractual arrangements. See more information below in this section.

The registered business scope of each of Shanghai Yi Yue, Leju IT, Shanghai SINA Leju, Shanghai Fangxin and Beijing Maiteng contains the business of development of computer software, which falls in the encouraged category for foreign investment in the currently effective Foreign Investment Industrial Guidance Catalogue. The registered business scope of each of City Rehouse and all its subsidiaries contains the business of real estate brokerage service, which was removed from the restricted category for foreign investment in the Foreign Investment Industrial Guidance Catalogue. Therefore, the business of real estate brokerage service now fall in the permitted category for foreign investment under PRC law, along with the other businesses listed in the registered business scope of each of Shanghai Yi Yue, Leju IT, Shanghai SINA Leju, Shanghai Fangxin, Beijing Maiteng, and City Rehouse and all its subsidiaries, which are not listed in the new Foreign Investment Industrial Guidance Catalogue.

PRC laws and regulations currently prohibit foreign investors from holding more than 50% of a foreign-invested telecommunications enterprise that provides commercial internet information services, which are one type of value-added telecommunications services. In addition, PRC laws and regulations currently do not allow foreign entities with less than two years of direct experience operating an advertising business outside China to invest in an advertising business in China. Because of such restriction, our internet information services and advertising services activities are conducted through consolidated variable interest entities in China, namely Beijing Leju, Shanghai Yi Xin and Beijing Jiajuju, or the consolidated variable interest entities.

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We have entered into, through our PRC subsidiaries, Shanghai SINA Leju, Shanghai Yi Yue and Beijing Maiteng, a series of contractual arrangements with Beijing Leju, Shanghai Yi Xin, Beijing Jiajujiu and their respective shareholders. These contractual arrangements enable us to (i) direct the activities that most significantly affect the economic performance of Beijing Leju, Shanghai Yi Xin, Beijing Jiajujiu and their subsidiaries and branches; (ii) receive substantially all of the economic benefits from the three consolidated variable interest entities and their subsidiaries in consideration for the services provided by our PRC subsidiaries; and (iii) have an exclusive option to purchase all or part of the equity interests in the consolidated variable interest entities, when and to the extent permitted by PRC law, or request any existing shareholder of the consolidated variable interest entities to transfer all or part of the equity interest in the consolidated variable interest entities to another PRC person or entity designated by us at any time in our discretion.

As a result of these contractual arrangements, we, through our PRC subsidiaries, have become the primary beneficiary of these PRC entities and account for them as variable interest entities, and consolidate the financial results of these entities into our financial statements in accordance with U.S. GAAP. Substantially all of our revenues are derived from our consolidated variable interest entities and we rely on dividends and service fees paid to us by our PRC subsidiaries and our consolidated variable interest entities in China. Entities apart from our consolidated variable interest entities contributed in aggregate 3.0%, 3.3% and 1.3% of our total net revenues in 2015, 2016 and 2017, respectively. Our operations not conducted through contractual arrangements with the consolidated variable interest entities primarily consist of outsourcing arrangements business, support services for online advertising business and agency services included with our e-commerce business. In 2015, 2016 and 2017, the total amount of service fees that our PRC subsidiaries received from our consolidated variable interest entities under all the service agreements between our PRC subsidiaries and consolidated variable interest entities was \$25.7 million, \$11.3 million and \$14.3 million, respectively. As of December 31, 2017, the amount of service fees payable to us by the consolidated variable interest entities was \$82.7 million.

In 2017, the contractual arrangements with Beijing Leju, Shanghai Yi Xin and Beijing Jiajujiu changed as follows:

- On February 16, 2017, Mr. Xudong Zhu, Mr. Zuyu Ding, Beijing Leju and Shanghai SINA Leju entered into a termination agreement to terminate the then effective VIE contractual arrangements with respect to Beijing Leju. On the same day, Mr. Xudong Zhu, Mr. Zuyu Ding and Mr. Yinyu He entered into an equity transfer agreement, pursuant to which Mr. Zuyu Ding has transferred all of his equity interests in Beijing Leju to Mr. Yinyu He. According to a supplemental agreement executed on the same day by Mr. Xudong Zhu, Mr. Zuyu Ding, Mr. Yinyu He, Beijing Leju and Shanghai SINA Leju, the parties have agreed upon entering into a new set of VIE contractual arrangements with respect to Beijing Leju. On February 16 and February 17, 2017, the parties entered into such contractual arrangements, more details of which are summarized below.
- On March 1, 2017, Mr. Weijie Ma, Mr. Zuyu Ding, Shanghai Yi Xin and Shanghai Yi Yue entered into a termination agreement to terminate the then effective VIE contractual arrangements with respect to Shanghai Yi Xin. On the same day, Mr. Weijie Ma, Mr. Zuyu Ding and Mr. Yinyu He entered into an equity transfer agreement, pursuant to which Mr. Zuyu Ding has transferred all of his equity interests in Shanghai Yi Xin to Mr. Yinyu He. According to a supplemental agreement executed on the same day by Mr. Weijie Ma, Mr. Zuyu Ding, Mr. Yinyu He, Shanghai Yi Xin and Shanghai Yi Yue, the parties have agreed upon entering into a new set of VIE contractual arrangements with respect to Shanghai Yi Xin. On March 1 and March 2, 2017, the parties entered into such contractual arrangements, more details of which are summarized below.



- On February 26, 2017, Mr. Weijie Ma, Mr. Zuyu Ding, Beijing Jiajujiu and Beijing Maiteng entered into a termination agreement to terminate the then effective VIE contractual arrangements with respect to Beijing Jiajujiu. On the same day, Mr. Weijie Ma, Mr. Zuyu Ding and Mr. Yinyu He entered into an equity transfer agreement, pursuant to which Mr. Zuyu Ding has transferred all of his equity interests in Beijing Jiajujiu to Mr. Yinyu He. According to a supplemental agreement executed on the same day by Mr. Weijie Ma, Mr. Zuyu Ding, Mr. Yinyu He, Beijing Jiajujiu and Beijing Maiteng, the parties have agreed upon entering into a new set of VIE contractual arrangements with respect to Beijing Jiajujiu. On February 26 and February 27, 2017, the parties entered into such contractual arrangements, more details of which are summarized below.

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The following is a summary of the currently effective contractual arrangements relating to the consolidated variable interest entities:

*Agreements that Provide Us with Effective Control over the consolidated variable interest entities*

*Exclusive Call Option Agreement.* Our wholly owned indirect subsidiary, Shanghai SINA Leju, has entered into an exclusive call option agreement with our variable interest entity, Beijing Leju, and its shareholders. Our wholly owned indirect subsidiary, Shanghai Yi Yue, has entered into an exclusive call option agreement with our variable interest entity, Shanghai Yi Xin, and its shareholders. Our PRC subsidiary, Beijing Maiteng, has entered into an exclusive call option agreement with our variable interest entity, Beijing Jiajujiu, and its shareholders. In each case, under the exclusive call option agreement each shareholder of the applicable variable interest entity has granted an irrevocable and unconditional option to the applicable PRC subsidiary of our Company that will entitle such PRC subsidiary or its designated entity or individual to acquire all or part of the equity interests held by such shareholders in such variable interest entity at its sole discretion, to the extent as permitted by the then-effective PRC laws and regulations. The consideration for such acquisition of all equity interests in the applicable variable interest entity will be equal to the registered capital of such variable interest entity, and if there is any limitation imposed by PRC law that requires the consideration to be greater than the registered capital, the consideration will be the minimum amount as permitted by PRC law. In addition, each such variable interest entity has irrevocably and unconditionally granted the applicable PRC subsidiary of our Company an exclusive option to purchase, to the extent permitted under the PRC law, all or part of the assets of such variable interest entity. The exercise price for purchasing the assets of such variable interest entity will be equal to the book value of such assets unless otherwise required by the PRC law. The call option may be exercised by the applicable PRC subsidiary of our Company or any third party designated by it. Each exclusive call option agreement will terminate after all the equity interests and assets of the applicable variable interest entity subject to the call option under such agreement have been transferred to the applicable PRC subsidiary of our Company or its designated third party pursuant to the terms and conditions of such agreement. Each of Shanghai SINA Leju, Shanghai Yi Yue and Beijing Maiteng is entitled to terminate the applicable exclusive call option agreement if any of the applicable consolidated variable interest entity or its shareholders materially breaches the agreement and fails to rectify the breach within a reasonable period or within ten days upon written request from Shanghai SINA Leju, Shanghai Yi Yue or Beijing Maiteng, as applicable. The applicable consolidated variable interest entity and its shareholders are not entitled to terminate the agreement early unless otherwise provided by PRC law.

*Loan Agreement.* Pursuant to a loan agreement among Shanghai SINA Leju, Mr. Xudong Zhu and Mr. Yinyu He, Shanghai SINA Leju granted an interest-free loan of RMB8.0 million to Mr. Xudong Zhu and RMB2.0 million to Mr. Yinyu He, respectively, solely for their capital contribution to or purchase of equity interests in Beijing Leju. Pursuant to a loan agreement among Shanghai Yi Yue, Mr. Yinyu He and Mr. Weijie Ma, Shanghai Yi Yue granted an interest-free loan of RMB10.5 million to Yinyu He and RMB4.5 million to Weijie Ma, respectively, solely for their capital contribution to Shanghai Yi Xin. Pursuant to a loan agreement among Beijing Maiteng, Mr. Yinyu He and Mr. Weijie Ma, Beijing Maiteng granted an interest-free loan of RMB10.5 million to Yinyu He and RMB4.5 million to Weijie Ma, respectively, solely for their capital contribution to Beijing Jiajujiu. Each loan under each loan agreement has a term starting from the date when the applicable lender provides such loan to the applicable borrower and ending on the earliest of (i) the twentieth anniversary of the signing date of such loan agreement; (ii) the expiry date of the applicable lender's business operation term (including any extension of such term); or (iii) the expiry date

of the applicable consolidated variable interest entity's business operation term (including any extension of such term). None of the loan agreements includes a provision for early termination by any party.

*Shareholder Voting Rights Proxy Agreement.* Our wholly owned indirect subsidiary, Shanghai SINA Leju, has entered into a shareholder voting rights proxy agreement with our variable interest entity, Beijing Leju, and its shareholders. Our wholly owned indirect subsidiary, Shanghai Yi Yue, has entered into a shareholder voting rights proxy agreement with our variable interest entity, Shanghai Yi Xin, and its shareholders. Our PRC subsidiary, Beijing Maiteng, has entered into a shareholder voting rights proxy agreement with our variable interest entity, Beijing Jiajuju, and its shareholders. Under each shareholder voting rights proxy agreement, the shareholders of each variable interest entity have granted to any person designated by the applicable PRC subsidiary of our Company the power to exercise all voting rights to which such shareholder is then entitled as a shareholder of the applicable variable interest entity. Each shareholder voting rights proxy agreement has a term of twenty years. If the applicable PRC subsidiary requests for extension of the term by written notice to the other parties to such agreement thirty days in advance, the term of such agreement shall automatically extend for one year after the expiry of the original term, and such extension mechanism shall continue to apply to any extended term of such agreement. Each of Shanghai SINA Leju, Shanghai Yi Yue and Beijing Maiteng is entitled to terminate the applicable shareholder voting rights proxy agreement if any of the applicable consolidated variable interest entity or its shareholders materially breaches the agreement and fails to rectify the breach within a reasonable period or within ten days upon written request from Shanghai SINA Leju, Shanghai Yi Yue or Beijing Maiteng, as applicable. The applicable consolidated variable interest entity and its shareholders are not entitled to terminate this agreement early unless otherwise provided by PRC law.

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*Equity Pledge Agreement.* Our wholly owned indirect subsidiary, Shanghai SINA Leju, has entered into an equity pledge agreement with our variable interest entity, Beijing Leju, and its shareholders. Our wholly owned indirect subsidiary, Shanghai Yi Yue, has entered into an equity pledge agreement with our variable interest entity, Shanghai Yi Xin, and its shareholders. Our PRC subsidiary, Beijing Maiteng, has entered into an equity pledge agreement with our variable interest entity, Beijing Jiajujiu, and its shareholders. Under each such equity pledge agreement, all of the equity interest in the applicable variable interest entity is pledged to the applicable PRC subsidiary of our Company to guarantee the performance of the obligations of such variable interest entity and its shareholders under the relevant exclusive call option agreement, loan agreement, shareholder voting rights proxy agreement and in the case of Beijing Leju, the exclusive technical support agreement. If any of the variable interest entity or their respective shareholders were to breach its or such shareholder's contractual obligations, as the case may be, the applicable PRC subsidiary of our Company, as pledgee, would be entitled to certain rights, including the right to sell the pledged equity interests and to be compensated from the sales proceeds in priority. Furthermore, each shareholder of each variable interest entity has agreed not to transfer, sell, pledge, dispose of or otherwise create any new encumbrance on their equity interest in such variable interest entity without the prior written consent of the applicable PRC subsidiary of our Company. The equity pledge rights of each of our PRC subsidiaries under the equity pledge agreement will expire when the applicable variable interest entity and its shareholders have fully performed their respective obligations under each of the above agreements. None of the equity pledge agreements includes a provision for early termination by any party.

*Agreements that Transfer Economic Benefits of the consolidated variable interest entities to Us*

*Exclusive Technical Support Agreement.* Our wholly owned indirect subsidiary, Shanghai SINA Leju, has entered into an exclusive technical support agreement with our variable interest entity, Beijing Leju. Our wholly owned indirect subsidiary, Shanghai Yi Yue, has entered into an exclusive technical support agreement with our variable interest entity, Shanghai Yi Xin. Our PRC subsidiary, Beijing Maiteng, has entered into an exclusive technical support agreement with our variable interest entity, Beijing Jiajujiu. Pursuant to each such exclusive technical support agreement the applicable PRC subsidiary of our Company provides the applicable variable interest entity with a series of technical support services and is entitled to receive related fees. Each exclusive technical support agreement will expire upon dissolution of the applicable variable interest entity. Each of Shanghai SINA Leju, Shanghai Yi Yue and Beijing Maiteng is entitled to terminate the applicable exclusive technical support agreement early if (i) the applicable consolidated variable interest entity breaches the agreement, and within 30 days upon written notice, fails to rectify its breach, take sufficient, effective and timely measures to eliminate the effects of breach, and compensate for any losses incurred by the breach; (ii) the applicable consolidated variable interest entity is bankrupt or is subject to any liquidation procedures and such procedures are not revoked within seven days; or (iii) due to any event of force majeure, the applicable consolidated variable interest entity's failure to perform its obligations under the agreement lasts for over 20 days. Except as provided in the preceding sentence, each of Shanghai SINA Leju, Shanghai Yi Yue and Beijing Maiteng is entitled to terminate the agreement early at any time by sending a written notice 20 days in advance, for any reason. None of the exclusive technical support agreements includes a provision for early termination by any consolidated variable interest entity. Unless expressly provided by this agreement, without prior written consent of the applicable PRC subsidiary of our Company, the applicable variable interest entity may not engage any third party to provide the services offered by such PRC subsidiary under this agreement.

In the opinion of Fangda Partners, our PRC legal counsel:

- The ownership structures of Beijing Leju, Shanghai Yi Xin and Beijing Jiajujiu described above are in compliance with existing PRC laws and regulations; and
- Each of the contractual arrangements described above, in each case governed by PRC law, is valid and binding and enforceable in accordance with their respective terms based on currently effective PRC laws and regulations, and do not violate PRC laws or regulations currently in effect.

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However, as advised by Fangda Partners, our PRC legal counsel, there are substantial uncertainties regarding the interpretation and application of current or future PRC laws, rules and regulations, and accordingly, there can be no assurance that the PRC regulatory authorities will not ultimately take a contrary view from that of our PRC legal counsel. We have been further advised by our PRC legal counsel that if the PRC regulatory authorities determine that our contractual arrangements for operating our internet and advertising business in China do not comply with PRC government restrictions on foreign investment in such industries, we could be subject to severe penalties. See Item 3. Key Information D. Risk Factors Risks Related to Our Corporate Structure If the PRC government finds that the agreements that establish the structure for operating our advertising services business and online real estate business in China do not comply with PRC governmental restrictions on foreign investment in the advertising industry or the internet information service industry, we could be subject to severe penalties and Our ability to enforce the equity pledge agreements between us and the shareholders of Beijing Leju, Shanghai Yi Xin or Beijing Jiajujiu may be subject to limitations based on PRC laws and regulations . In addition, see Item 3. Key Information D. Risk Factors Risks Related to Doing Business In China Substantial uncertainties exist with respect to the enactment timetable, interpretation and implementation of draft PRC Foreign Investment Law and how it may impact the viability of our current corporate structure, corporate governance and business operations .

D. Property, Plants and Equipment

Our principal executive offices are located at Beijing Shoudong International Plaza, with approximately 5,461 square meters of office space. Our headquarters has been at this location since January 2012. As of December 31, 2017, we leased properties with an aggregate gross floor area of approximately 37,171 square meters for our 56 local offices across China and at our Hong Kong office. Our leased properties mainly consist of office premises, a portion of which are leased from related parties. We believe our existing leased premises are adequate for our current business operations and that additional space can be obtained on commercially reasonable terms to meet our future requirements.

**ITEM 4A. UNRESOLVED STAFF COMMENTS**

Not applicable.

**ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS**

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with our consolidated financial statements and the related notes included elsewhere in this annual report on Form 20-F. This discussion may contain forward-looking statements based upon current expectations that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under Item 3. Key Information D. Risk Factors or in other parts of this annual report on Form 20-F.

A. Operating Results

**Overview**

We are a leading O2O real estate services provider in China. We offer real estate e-commerce, online advertising and online listing services through our online platform, which comprises local websites covering over 260 cities and various mobile applications. We integrate our online platform with complementary offline services to facilitate residential property transactions. In addition to our own websites, we also operate various real estate and home furnishing websites of SINA. We had also operated Baidu's real estate and home furnishing websites until December 31, 2015. Moreover, we operate official accounts on Weixin and Weibo.

*E-Commerce.* We offer e-commerce services primarily in connection with new residential property sales. Our O2O services for new residential properties include selling discount coupons and facilitating online property viewing, physical property visits and pre-sale customer support. We earn revenue primarily from the sale of discount coupons used for property purchases. Our revenues from e-commerce services in 2015, 2016 and 2017 were \$420.6 million, \$419.0 million and \$234.8 million, respectively, representing 73.0%, 74.9% and 64.8%, respectively, of our total revenues for those periods.

*Online Advertising.* We currently sell advertising primarily on the SINA new residential properties and home furnishing websites, which are operated by us. We also had similar arrangement with Baidu until December 31, 2015. In addition, we are the exclusive advertising agent for the SINA home page and non-real estate websites with respect to advertising sold to real estate and home furnishing advertisers. We also had the exclusive right to sell Baidu's Brand-Link product within the real estate industry until December 31, 2015. We also sell advertising on our contractor platform website and on various mobile applications. Our revenues from online advertising services in 2015, 2016 and 2017 were \$134.2 million, \$118.0 million and \$113.2 million, respectively, representing 23.3%, 21.1% and 31.2%, respectively, of our total revenues for those periods.

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*Listing.* We offer fee-based online property listing services to real estate agents and free services to individual property sellers. We currently operate the SINA real estate websites for listings of existing residential properties for sale or lease. We also operated the Baidu real estate websites for such listing until December 31, 2015. Our revenues from listing services in 2015, 2016 and 2017 were \$21.0 million, \$22.5 million and \$14.5 million, respectively, representing 3.7%, 4.0% and 4.0%, respectively, of our total revenues for those periods.

We generated total revenues of \$575.8 million, \$559.5 million and \$362.5 million in 2015, 2016 and 2017, respectively. We generated net income of \$34.8 million in 2015 and incurred net loss of \$11.6 million and \$162.0 million in 2016 and 2017, respectively. We had adjusted net income of \$56.9 million and \$8.4 million in 2015 and 2016, respectively, and incurred adjusted net loss of \$106.1 million in 2017. Substantially all of our operations are in China. For information regarding adjusted net income, see Selected Consolidated Financial Data Non-GAAP Financial Measures .

**Significant Factors Affecting Our Results of Operations**

*The PRC real estate industry*

Our results of operations have been, and are expected to continue to be, affected by the general performance of China's real estate industry. Conditions in China's real estate industry have a significant impact on each of our business segments, and in particular on our new home business, which relies significantly on the volume of new property launches by property developments and market transaction volume. The following factors typically have a significant impact on China's real estate industry:

- *Economic growth, speed of urbanization and demand for residential and commercial properties in China.* China's economic growth has been primarily concentrated in China's urban areas, and economic growth, higher standards of living, population growth and urbanization are primary drivers of demand for the purchase or rental of residential properties. Because we focus on China's urban areas, China's economic growth and urbanization are important to our operations. The PRC property industry is dependent on the overall economic growth in China and the associated demand for residential properties.
- *Government policies.* The PRC government exercises considerable direct and indirect influence over the real estate industry through its policies and other economic measures. The PRC government regulates real estate purchases and taxation associated with real estate transactions. For greater detail see Item 3. Key Information D. Risk Factors Risks Related to Our Business Our business is susceptible to fluctuations in China's real estate industry, which may materially and adversely affect our results of operations and Item 3. Key Information D. Risk Factors Risks Related to Our Business Our business may be materially and adversely affected by government measures aimed at China's real estate industry . The imposition of new policies, laws and regulations, or changes to current policies, laws and regulations, could have a material impact on the real estate market in China, which would affect our business, financial condition and results of operations.



- *Availability and cost of credit.* The availability and cost of credit have a substantial effect on customers ability to purchase properties and the prices they can afford to pay. This impacts the number of properties that developers are able to market and sell, which is a significant factor affecting our results of operations. The PRC government regulates the proportion of the purchase price of a property that may be financed with credit and the price of credit is generally a function of benchmark interest rates. To the extent that fluctuations in interest rates or regulatory changes impact the availability and cost of financing for property purchases, conditions in the real estate industry, and our results of operations, would be affected.
  
- *Supply of new residential real estate projects.* The growth of the PRC real estate industry depends largely on the launch of new residential real estate projects at affordable prices. Factors such as the overall economy, competition and government land policies can affect the price and availability of new projects. The PRC government and relevant local authorities control various aspects of new projects, including the amount and cost of land for development, each of which affects the supply of new developments and our results of operations.

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***The PRC internet industry***

We are an internet company and a majority of our revenue is generated from our e-commerce and online advertising services provided on our websites. Therefore, our results of operations are heavily dependent on the continued development of China's internet industry. The internet has emerged as an increasingly attractive and cost-effective advertising channel in China. However, the internet industry in China is heavily regulated. PRC laws, rules and regulations cover virtually every aspect of the internet industry, including entry into the industry, the scope of permissible business activities and foreign investment. Furthermore, the PRC government levies business taxes, value-added taxes, surcharges and cultural construction fees on advertising-related sales in China, such as sales of our e-commerce, online advertising, listing and other value-added services. In addition, because certain of our PRC subsidiaries and consolidated variable interest entities currently qualify as high and new technology enterprises, they enjoy tax holidays from the relevant PRC tax authorities or under local governmental policies. The imposition of new laws and regulations, or changes to current laws and regulations, could have a material impact on our business, financial condition and results of operations.

***Our ability to innovate and market acceptance of our services***

We operate in a competitive industry and the extent to which we are able to provide innovative e-commerce and advertising services that are attractive to developers and prospective property purchasers has a material effect on our results of operations. For example, we pioneered e-commerce services in China's real estate market in April 2011 by offering online auctions as a promotional tool for our partner developers. In early 2012, we introduced property price discount coupons as a means of generating buyers for our partner developers in conjunction with online advertising and offline customer origination. In 2015 and 2016, we continually upgraded the site visit experience of prospective property purchasers by launching new services including site visits through private car or virtual reality technology. In December 2016 we launched new advertising products based on cross-utilizing databases we and our strategic partners have, allowing for more accurate targeting of potential buyers. In 2017, we introduced our new marketing product, Zai Xian Xuan Fang, to simplify the transaction process. During this period, our new suite of big data-empowered advertising products became increasingly popular among our developer clients, and our mobile marketing strategy has started to yield positive results. Our results of operations will continue to be significantly affected by the extent to which our evolving e-commerce and advertising services, including any future innovations that we may introduce, achieve success in the market.

***Our ability to maintain and expand our online platform***

Consumers are able to access our services through various websites and mobile applications, our telephone call center and at property showrooms and other physical locations. Our internet presence includes local websites across China that we either operate directly or outsource to local outsourcing partners. We operate a variety of websites pursuant to our arrangements with SINA. Since many of our customers in our new home business are one-time property buyers, we depend on our online platform as a key driver for bringing in new business. The costs of maintaining and expanding our online platform in order to continue to reach a broad base of customers, and our ability to maintain our relationships with SINA, has a significant effect on our results of operations.

***Our ability to compete effectively***

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We face competition in each of our main business activities. We compete with other e-commerce providers for market share in key markets, relationships with developers and for the acquisition of web traffic. We compete for talent with other online businesses and to a lesser extent with traditional businesses. Our industry has become increasingly competitive, and such competition may continue to intensify in future periods. As the barriers to entry for establishing internet-based businesses are typically low, it is possible for new entrants to emerge and rapidly scale up their operations. We expect additional companies to enter the online real estate and home-related internet service industry in China and a wider range of online services in this area to be introduced.

### *Our ability to expand into new geographic areas in China*

A significant portion of our revenues is concentrated in China's major urban centers including Beijing, Shanghai, Guangzhou and Chongqing. We expect them to continue to represent a significant portion of our revenues in the near term. We also may expand into new geographic areas and sectors and increase our market share in areas and sectors where we currently operate. As of December 31, 2017, we had established real estate-related content, search services, marketing and listing coverage of 377 cities across China. Our ability to succeed in newly penetrated cities and cities where we intend to increase our presence will have a substantial impact on our results of operations, and we may incur significant additional operating expenses, including hiring new sales and other personnel, in order to expand our operations.

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**Selected Statement of Operations Items**

***Revenues***

*E-commerce.* Our e-commerce services primarily include discount coupon advertising and facilitating transactions. We provide property viewing and pre-sale customer support free of charge in connection with the sale of discount coupons. E-commerce revenues are principally generated from selling discount coupons to potential property buyers, which allow buyers to purchase specified properties from real estate developers at discounts greater than the face value of the fees charged by us. The discount coupons are refundable to the buyers at any time before they are used to purchase the specified properties. We recognize such e-commerce revenues upon obtaining confirmation letters that prove the use of coupons by property buyers, and when collections are reasonably assured. Revenues are recognized based on the net proceeds received as we act as a marketing agent of the property developer in such transactions. We also facilitate transactions on our proprietary platform for home furnishing business and earn commissions from merchants that are generally determined as a percentage of the value of merchandise being sold by the merchants. Revenue related to commissions is recognized at the time when the underlying transaction is completed.

*Online advertising.* Revenues from online advertising services are generated principally from online advertising arrangements, sponsorship arrangements, and to a lesser extent, outsourcing arrangements and keyword advertising arrangements. Online advertising arrangements allow advertisers to place advertisements on particular areas of the websites we operate, in particular formats and over particular periods of time. Advertising revenues from online advertising arrangements are recognized ratably over the contract period of display when collectability is reasonably assured. Sponsorship arrangements allow advertisers to sponsor a particular area on our websites in exchange for a fixed payment over the contract period. Advertising revenues from sponsorship arrangements are recognized ratably over the contract period. We also generate online advertising revenues from outsourcing certain regional sites for a fixed period of time to local outsourcing partners. In such cases, we earn a fixed advertising fee payable by the local outsourcing partners, who are responsible for both website operation and related advertising sales. Advertising revenues from hosted websites are recognized ratably over the term of the contract. Keyword advertising revenues are recognized ratably over the contract period when collectability is reasonably assured.

*Listing.* We provide online property listing services to secondary brokers and individual property sellers. Listing services entitle secondary brokers to post and make changes to information for properties in a particular area on the website for a specified period of time, in exchange for a fixed fee. Listing revenues are recognized ratably over the contract period of display when collectability is reasonably assured.

Deferred revenues are recognized when payments are received in advance of revenue recognition.

*Cost of revenues*

Cost of revenues consists of costs associated with the production of websites, which includes fees paid to third parties for internet connection, content and services, editorial personnel related costs, amortization of intangible assets, depreciation associated with website production equipment and fees paid to SINA and other platform for advertising resources.

*Selling, general and administrative expenses*

Selling, general and administrative expenses comprise marketing expenses, compensation and benefits for personnel other than editorial personnel, expenses of third-party professional services, rental payments relating to office and administrative functions and depreciation, amortization of property and equipment used in our corporate offices and other administrative expenses. Our selling, general and administrative expenses also include amortization of intangible assets that do not relate to internet content, including our license agreement with SINA. Selling general and administrative expenses also include bad debt expenses. Bad debt can result from developer customers not paying amounts owing to us for services rendered and in cases where third parties to whom we outsource certain websites fail to pay fixed fees owed to us.

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Marketing and advertising expenses consist primarily of targeted online and offline marketing costs for promoting our e-commerce projects, increasing our visibility and building our brand, such as Leju property visit, sponsored marketing campaigns, online or print advertising, public relations and sponsored events. We expense all marketing advertising costs as incurred and record these costs within Selling, general and administrative expenses on the consolidated statements of operations when incurred. Our direct marketing activities are intended to attract subscribers for online advertising and potential property buyers to purchase the discount coupon.

*Share-based compensation expense*

In 2015 and 2016, a portion of our share-based compensation expense related to E-House's allocation to us of share-based compensation expenses of their senior management. These allocations were made using a proportional cost allocation method and were based on revenues, headcount as well as estimates of actual time spent on the provision of services attributable to our company.

In November 2013, we adopted a share incentive plan, or the Leju Plan, which allows us to offer a variety of share-based incentive awards to employees, officers, directors and individual consultants who render services to us. The plan permits the grant of three types of awards: options, restricted shares and restricted share units. The maximum number of shares that may be issued pursuant to all awards under the Leju Plan, or the Leju Award Pool, is 10,434,783 ordinary shares initially, and shall be increased automatically by 5% of the then total outstanding shares on an as-converted fully diluted basis on each of the third, sixth and ninth anniversaries of the effective date of the Leju Plan. On December 1, 2016 the Leju Award Pool was automatically increased by 7,553,422 ordinary shares. Accordingly, the size of the Leju Award Pool is currently 17,988,205 ordinary shares.

Pursuant to the Leju Plan, we granted (i) options to certain of our employees for the purchase of 501,000 ordinary shares at an exercise price of \$9.68 per share, on April 28, 2015, (ii) options to certain of our employees for the purchase of 30,000 ordinary shares at an exercise price of \$7.00 per share, on August 7, 2015, (iii) options to certain of our employees and certain of E-House's employees for the purchase of 1,986,000 ordinary shares at an exercise price of \$5.54 per share, on December 14, 2015. The options expire ten years from the date of grant and vest ratably at each anniversary of the grant date over a period of three years.

On March 30, 2017, we granted to certain of our employees and directors options to purchase an aggregate of 2,135,000 ordinary shares at an exercise price of \$3.24 per share, pursuant to the Leju Plan. The options expire ten years from the date of grant and vest ratably at each grant date anniversary over a period of three years.

On March 21, 2018, we granted to certain of our employees and directors options to purchase an aggregate of 1,045,000 ordinary shares at an exercise price of \$1.55 per share, pursuant to the Leju Plan. The options expire ten years from the date of grant and vest over a period of three years.

As of March 31, 2018, the aggregate number of our ordinary shares underlying outstanding options granted under the Leju Plan is 9,677,041, and no restricted shares granted under the Leju Plan is outstanding.

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In 2017, we recorded compensation expenses of \$3.3 million for the options and restricted shares granted to our employees and directors under the Leju Plan, and \$78.2 thousand in dividends to E-House for the options and restricted shares granted to employees and directors of E-House under the Leju Plan. As of December 31, 2017, we had \$4.6 million of total unrecognized compensation expenses related to unvested share options and restricted shares granted under the Leju Plan, which we expect to be recognize over a weighted-average period of 1.6 years.

In 2015, our subsidiary, Omnigold adopted a share incentive plan, or the Omnigold Plan, pursuant to which (i) the maximum number of shares of Omnigold available for issuance pursuant to all awards under the Omnigold Plan, or the Omnigold Award Pool, is initially 5,000,000 as of the date on which the Omnigold Plan was approved and adopted by the board of directors of Omnigold, or the Omnigold Plan Effective Date, and (ii) the Omnigold Award Pool is increased automatically by 5% of the then total issued and outstanding shares of Omnigold on an as-converted fully diluted basis on each of the third, sixth and ninth anniversary of the Omnigold Plan Effective Date.

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On August 11, 2015, Omnigold granted 2,400,000 options to purchase its ordinary shares to certain of our employees at an exercise price of \$1.50 per share. The options expire ten years from the date of grant and vest ratably at each anniversary of the grant date over a period of three years.

In 2017, we recorded compensation expenses of \$0.2 million for the options and restricted shares granted to our employees and directors under the Omnigold Plan. As of December 31, 2017, we had \$128.2 thousand of total unrecognized compensation expenses related to unvested share options and restricted shares granted under the Omnigold Plan, which we expect to be recognize over a weighted-average period of 0.6 years.

***Other operating income***

Our other operating income primarily relates to cash subsidies received by our subsidiaries in China from local governments to encourage us to operate in certain local districts.

***Interest income***

We earn interest income primarily from bank deposits.

***Other income, net***

Other income, net relates to unrealized gain on marketable securities, foreign exchange loss/(gain) and reimbursement from the depository for our expenses incurred in connection with the establishment and maintenance of the ADS program.

Our reporting currency is the U.S. dollar, while certain of our subsidiaries have functional currencies other than the U.S. dollar, such as the Renminbi and the Hong Kong dollar. Transactions in other currencies are recorded at the rates of exchange prevailing when the transactions occur. Transaction gains and losses are recognized in the consolidated statements of operations.

***Income tax***

We are incorporated in the Cayman Islands as an exempted company. Under the current law of the Cayman Islands, we are not subject to income or capital gains tax in the Cayman Islands. Our subsidiaries in the British Virgin Islands are not subject to income or capital gains tax in the British Virgin Islands. Our subsidiaries in Hong Kong are subject to a profit tax at the rate of 16.5% on assessable profit determined under relevant Hong Kong tax regulations.



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The EIT Law applies a uniform 25% enterprise income tax rate to both foreign-invested enterprises and domestic enterprises, except where a special preferential rate applies. In addition, the EIT Law also provides a five-year transitional period starting from its effective date for those enterprises that were established before March 16, 2007, the date of promulgation of the EIT La