

Leju Holdings Ltd
Form 20-F
April 22, 2016
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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, 2015.
- OR**
- ☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
- OR**
- ☐ **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Date of event requiring this shell company report

For the transition period from **to**

Commission file number 001-36396

Leju Holdings Limited
(Exact name of Registrant as specified in its charter)

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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

People's Republic of China

(Address of principal executive offices)

Min Chen, Chief Financial Officer

Leju Holdings Limited

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Dongcheng District, Beijing 100022

People's Republic of China

Telephone: +86 10 5895 1180

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

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

Title of each class
American Depositary Shares, each
representing one ordinary share, par
value \$0.001 per share

Name of exchange on which registered
New York Stock Exchange

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

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.

139,229,418 ordinary shares, par value \$0.001 per share,
as of December 31, 2015.

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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 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 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, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐

Accelerated filer ☒

Non-accelerated filer ☐

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

US 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;
- China Online Housing are to China Online Housing Technology Corporation;
- consolidated variable interest entity are to each of our consolidated variable interest entities, namely each of Beijing Leju, Shanghai Yi Xin and Beijing Jiajujiu;
- CITIC are to CITIC Bank Corporation Limited;
- E-House are to E-House (China) Holdings Limited, a Cayman Islands exempted company with limited

liability, and its predecessor entities;

- 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.;
- 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.

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, plan, believe, 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, 2013, 2014 and 2015 and selected consolidated balance sheet data as of December 31, 2014 and 2015 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, 2011 and 2012 and our consolidated balance sheet data as of December 31, 2012 and 2013 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.

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

	2011	2012	Year Ended December 31,		2015
		2013	2014		
(in thousands of \$, except share and per share data)					
Consolidated Statement of Operations Data					
Revenues					
E-commerce		26,996	170,205	326,680	420,552
Online advertising	132,076	138,767	145,445	155,050	134,229
Listing	5,015	5,533	19,772	14,293	21,023
Total revenues	137,091	171,296	335,422	496,023	575,804
Cost of revenues	(37,583)	(54,118)	(63,991)	(51,130)	(60,314)
Selling, general and administrative expenses	(121,610)	(163,535)	(226,143)	(366,342)	(475,445)
Goodwill impairment charge	(417,822)				
Other operating income	14	153	600	2,526	3,568
Income (loss) from operations	(439,911)	(46,203)	45,888	81,077	43,613
Income (loss) before taxes and equity in affiliates	(440,261)	(47,926)	45,785	82,429	45,341
Net income (loss)	(438,252)	(43,849)	42,650	66,659	34,806
Net income (loss) attributable to Leju shareholders	(438,831)	(44,759)	42,525	66,521	35,330
Earnings (loss) per share:					
Basic	(3.66)	(0.37)	0.35	0.51	0.26
Diluted	(3.66)	(0.37)	0.35	0.50	0.26
Weighted average numbers of shares used in computation:					
Basic	120,000,000	120,000,000	120,000,000	129,320,666	134,528,971
Diluted	120,000,000	120,000,000	120,000,000	132,502,100	136,223,974

	2012	2013	As of December 31, 2014	2015
			(in thousands of \$)	
Consolidated Balance Sheet Data				
Cash and cash equivalents	71,090	98,730	317,811	260,296
Accounts receivable, net of allowance for doubtful accounts	86,652	87,316	119,742	113,991
Total current assets	178,968	222,788	480,766	485,084
Intangible assets, net	163,204	128,530	105,419	90,737
Total assets	393,867	402,938	638,266	626,838
Amounts due to related parties	83,143	4,501	5,289	10,214
Total current liabilities	159,661	123,584	197,301	179,607
Total liabilities	200,588	151,148	223,342	202,605
Total Leju equity	190,173	248,706	414,845	424,712

Non-GAAP Financial Measures

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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 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 charge. 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 charge.

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 charge (net of tax)

We define adjusted net income (loss) attributable to Leju 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 charge (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 shareholders for the period. We compensate for these limitations by providing the relevant disclosure of our share-based compensation expense, amortization of intangible assets results from business acquisitions, and goodwill impairment charge both 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 shareholders in the periods presented to the most directly comparable financial measure calculated and presented in accordance with U.S. GAAP:

	2011	2012	Year Ended December 31, 2013 (in thousands of \$)	2014	2015
Income (loss) from operations	(439,911)	(46,203)	45,888	81,077	43,613
Share-based compensation expense(1)	13,542	15,134	6,311	11,311	12,585
Amortization of intangible assets resulting from business acquisitions	21,321	22,079	22,017	14,569	12,653
Goodwill impairment charge	417,822				
Adjusted income (loss) from operations	12,774	(8,990)	74,216	106,957	68,851
Net income (loss)	(438,252)	(43,849)	42,650	66,659	34,806
Share-based compensation expense (net of tax)(1)	13,542	15,134	6,311	11,311	12,585
Amortization of intangible assets resulting from business acquisitions (net of tax)	18,535	19,082	14,482	12,957	9,490
Goodwill impairment charge (net of tax)	417,822				
Adjusted net income (loss)	11,647	(9,633)	63,443	90,927	56,881
Net income (loss) attributable to Leju shareholders	(438,831)	(44,759)	42,525	66,521	35,330
Share-based compensation expense (net of tax and non-controlling interests)(1)	13,542	15,134	6,311	11,311	12,576
Amortization of intangible assets resulting from business acquisitions (net of tax and non-controlling interests)	18,342	18,719	14,197	12,842	9,490

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

417,822

**Adjusted net income (loss) attributable to
Leju shareholders**

10,875

(10,906)

63,033

90,674

57,396

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Note:

(1) Share-based compensation expense includes share-based compensation expenses recorded by us as well as share-based compensation expenses allocated from E-House to us.

Exchange Rate Information

Our reporting and financial statements are expressed in the U.S. dollar, which is our reporting and functional currency. However, our business is conducted in China and substantially all of our revenues are denominated in Renminbi. This annual report contains translations of RMB amounts into U.S. dollars at specific rates solely for the convenience of the reader. The conversion of RMB 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 certified exchange rate published by the Board of Governors of the Federal Reserve Bank. Unless otherwise noted, all translations from RMB to U.S. dollars and from U.S. dollars to RMB in this annual report were made at a rate of RMB6.4778 to \$1.00, the certified exchange rate in effect on December 31, 2015. We make no representation that any RMB or U.S. dollar amounts could have been, or could be, converted into U.S. dollars or RMB, 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 RMB into foreign currencies and through restrictions on foreign trade. On April 15, 2016, the certified exchange rate was RMB6.4730 to \$1.00.

The following table sets forth information concerning exchange rates between the RMB 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	Period End	Noon Buying Rate		
		Average (1)	Low	High
		(RMB per US\$1.00)		
2011	6.2939	6.4475	6.6364	6.2939
2012	6.2301	6.2290	6.3879	6.2221
2013	6.0537	6.1412	6.2438	6.0537
2014	6.2046	6.1704	6.2591	6.0402
2015	6.4778	6.2827	6.4896	6.1870
October	6.3180	6.3505	6.3591	6.3180
November	6.3883	6.3640	6.3945	6.3180
December	6.4778	6.4491	6.4896	6.3883
2016				
January	6.5752	6.5726	6.5219	6.5932
February	6.5525	6.5505	6.5154	6.5795
March	6.4480	6.5027	6.5500	6.4480
April (through April 15, 2016)	6.4730	6.4713	6.4810	6.4580

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.

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B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

Risks Related to Our Business

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. Since April 2010, PRC government agencies have issued a number of restrictive measures on the real estate market, which include:

- minimum down payments for the first self-use housing unit purchased by a family must be no less than 20% of the purchase price;
- minimum down payments for the second housing unit purchased by a family must be no less than 40% of the purchase price, and the loan interest rate must be no less than 110% of benchmark lending interest rate;
- certain municipalities, including Beijing, Shanghai and Guangzhou, where the local housing prices are deemed to be too high or to have risen too fast, are required to temporarily suspend the sale of housing units to families with registered local permanent residences that already own two or more housing units, families without registered local permanent residences that already own one or more housing units, and families without registered local permanent residences that cannot provide evidence of their local payment of taxes or social insurance premiums for a required period;
- business tax is imposed and calculated on the full sales revenues for the sale of all housing units held for less than two years, and on the difference between the sales revenues and the amount paid for the housing unit for the sale of non-ordinary housing units which were purchased two or more years ago;

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- real estate property tax pilot projects were launched in Shanghai and Chongqing. Local regulations require a real property tax to be imposed on certain local housing units purchased on or after January 28, 2011, at a current tax rate of 0.6% in Shanghai and at a tax rate ranging from 0.5% to 1.2% in Chongqing; and
- governments of most major cities are required to set up and make public their target for controlling the price of local, newly built, residential housing units for the current year within the first season. Accordingly, many cities, including Shanghai, Beijing, Chongqing and Shenzhen, have started such exercise to announce their respective price control targets for each year since 2011.

In late February and March 2013, the PRC government issued the New Five Policies for administration of the housing market and detailed implementation rules, which revealed the PRC government's strong determination to curb the increase of housing prices by requiring more stringent implementation of housing price control measures. For example, in cities where housing unit sales have already been subject to restrictions, if the local housing supply is not sufficient so that the housing prices are rising too fast, local governments are required to take more stringent measures to restrict housing units from being sold to those families who own one or more housing units. Following the request of the central government, Beijing, Shanghai and other major cities in China have announced detailed regulations for the New Five Policies in late March 2013, to further cool down local real estate markets. Such measures and policies by the government have caused a reduction in transactions in the real estate market. While these measures and policies remain in effect, they may continue to depress the real estate market, dissuade would-be purchasers from making purchases, reduce transaction volume, cause a decline in average selling prices, and prevent developers from raising the capital they need and increase developers' costs to start new projects.

To stimulate the real property market, the Chinese government has released policies to loosen some of the restrictive measures in 2015 and 2016. For example, the Chinese government lowered the percentage of down payment for purchase of houses during 2015 and 2016, and relaxed real property related tax policies in early 2016. Certain cities have also loosened their local housing price control measures in 2015 and 2016. However, we cannot assure you that the PRC government will not retighten its policies or adopt new measures in the future that may result in lower growth rates in the real estate industry. 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 compete with providers for online property listings, including *58.com*, which acquired *anjike.com* in 2015. 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

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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 relatively new and constantly evolving, our current or future competitors may be able to better position themselves to attract funding and to compete as the industry matures.

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.

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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.

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 integral 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 and new products may involve various risks and may not perform as expected. For example, we offer financial products to facilitate transactions as needed by our customers, such as the Leju Loan in cooperation with CITIC or the Easy Home Plan, which allows qualified home purchasers to obtain Leju e-Loan through the Fang Jin Suo platform of E-House. There can be no assurance that such products will perform as expected or be well received by customers. We may also face challenges for any other new initiatives we pursue in the future. Any of the foregoing could materially and adversely affect our business, results of operations and revenue growth prospects.

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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, our parent company, we own SINA's real estate operations. SINA is a substantial shareholder in E-House, our parent company. 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 substantial indirect 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.

Changes in our relationship with Baidu or the termination thereof could adversely affect our business and results of operations.

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 Baidu's real estate website, house.baidu.com, and home furnishing website, jiaju.baidu.com, to offer search-based advertising for China's real estate industry. Pursuant to our original strategic cooperation agreement with Baidu, we had the exclusive right, through March 2015, to build and operate all of Baidu's websites related to real estate and home furnishing, and to retain all revenues generated from these websites in exchange for a fixed fee that we pay to Baidu. 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, a form of keyword advertising. In addition, we and Baidu had also continued our cooperation in several other Baidu products to further expand the online search-based advertising market for China's 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. Upon the expiration of the cooperation in December 2015, we did not renew the strategic partnership with Baidu, but continue to work with Baidu as our product partner. There can be no assurance that Baidu will continue such cooperation with us as a product partner, and changes in our relationship with Baidu or the termination thereof could adversely affect our business and results of operations, if we are unable to secure substituting customers or sources of revenues.

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, Chongqing and Tianjin. In each of the years ended December 31, 2013, 2014 and 2015, more than 50% of our revenues was derived from Beijing, Shanghai, Guangzhou, Chongqing and Tianjin, and more than 20% of our total revenues were derived from Beijing. We expect these five 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.

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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 escalation of the European sovereign debt crisis since 2011, the end of quantitative easing by the U.S. Federal Reserve and the economic slowdown in the Eurozone in 2014. The Chinese economy has slowed down 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, and over the conflicts involving Ukraine and Syria. There have also been concerns on the relationship among China and other Asian countries, which may result in or intensify potential conflicts in relation to territorial disputes. 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. Any severe or prolonged slowdown in the global or Chinese economy may materially and adversely affect our business, results of operations and financial condition.

Failure to maintain or enhance our brands or image or failure of SINA to maintain its brands or images 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 success of the websites we operate on the platform of SINA is also dependent on the brands and images of SINA. These brands are 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.

We may not be able to successfully execute our strategy of strengthening our geographic coverage.

We plan to further enhance our presence in cities covered by our direct operations, especially provincial capitals and other strategically important urban areas, to further capture share in such markets. In addition, we may expand our business by operating directly in select cities where we currently outsource operations to local outsourcing partners. There have been instances in the past when, upon our decision to directly operate a website that we had previously outsourced to a third party, the third party failed to pay all or a portion of the fixed fees owed to us under the outsourcing arrangement. There can be no assurance that the costs of implementing our strategy, whether due to uncollected fees or otherwise, will not be substantial. Furthermore, when we attempt to enhance our presence in markets or enter new markets, we may face intense competition from companies with greater experience or a more established presence in the targeted geographical areas or from other companies with similar expansion targets. In addition, our business model and services may not be successful in untested markets and markets with a different legal and business environment. If we are unable to execute our strategy of strengthening our geographic coverage, our growth prospects could be materially and adversely affected.

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

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We have experienced substantial growth in recent periods. Our revenues increased from \$335.4 million in 2013 to \$575.8 million in 2015 at a CAGR of 31%. 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 Lunar 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.

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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, Shanghai, Guangzhou and Tianjin, 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.

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 all 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.

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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 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.

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 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 GAPPRT, 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.

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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 General Administration of Press, Publication, Radio, Film and Television, 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.

Each of our consolidated variable interest entities, including Beijing Leju, Shanghai Yi Xin and Beijing Jiajujiu, 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. Each of our consolidated variable interest entities is up to date on all of the requirements of these licenses applicable to their respective current business. Beijing Leju, Shanghai Yi Xin and Beijing Yisheng Leju Internet Technology Co., Ltd., a subsidiary of our consolidated variable interest entity Beijing Jiajujiu, each holds a valid ICP license issued by the local provincial branch of the MIIT, and 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. 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 Jiajujiu 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, 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.

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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 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.

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.

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Our management has concluded that our internal control over financial reporting was effective as of December 31, 2015. 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 the PRC 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 stricter 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, or the Labor Contract Law, that became effective in January 2008 and its implementing rules that became effective in September 2008 and its amendments that became effective in July 2013, employers are subject to stricter 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 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 Labor Contract Law and its amendments, 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 became effective in March 2014 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 entities and their subsidiaries use seconded employees for their principal business activities. The transition period ended on February 29, 2016, and those PRC subsidiaries are taking steps to decrease the number of seconded employees. 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.

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.

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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.

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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 be materially and adversely affected by the outbreak of 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.

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, 2015, we had leased 86 office premises in 57 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 7 leased premises and the landlords' failure to duly register the leases with the relevant PRC government authority with respect to 78 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 the lease 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.

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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 Carve-out from E-House and Our Relationships with E-House

We have limited experience operating as a stand-alone public company.

We have limited experience conducting our operations as a stand-alone public company. We are controlled by E-House, which 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. As E-House has continued to be our controlling shareholder following our initial public offering in April 2014, we expect E-House to continue to provide us with certain support services, but to the extent E-House does not continue to provide us with these support services, 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 operating as a stand-alone public company, 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.

In addition, our management team is required to develop the expertise necessary to comply with the numerous regulatory and other requirements applicable to public companies, including requirements relating to corporate governance, listing standards and investor relations issues. While we were a wholly owned subsidiary of E-House, we were indirectly subject to requirements to maintain an effective internal control over financial reporting under Section 404 of the Sarbanes-Oxley Act of 2002, or Section 404. However, as a stand-alone public company, our management team has to evaluate our internal control system independently with new thresholds of materiality, and to implement necessary changes to our internal control system. We cannot guarantee that we will be able to do so in a timely and effective manner.

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.

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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, customer service 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.

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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 as a stand-alone public company. 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 business we have been engaged in as described in the prospectus of our initial public offering. 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 control us, 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.

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

We continue to be controlled by and an affiliate of E-House after our initial public offering in April 2014. We have benefited significantly from E-House in marketing our services. For example, we have benefited from E-House by providing services to E-House's clients. If E-House 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.

E-House will control the outcome of shareholder actions of our company.

As of March 31, 2016, E-House held 69.3% of our ordinary shares and voting power. E-House's voting power gives it the power to control actions that require shareholder approval under Cayman Islands law, our memorandum and articles of association and NYSE requirements, including the election and removal of a majority of our board of directors, approval of mergers and other business combinations, changes to our memorandum and articles of association, the number of shares available for issuance under share incentive plans, and the issuance of significant amounts of our ordinary shares in private placements.

E-House's voting control may cause transactions to occur that might not be beneficial to you as a holder of our ADSs, and may prevent transactions that would be beneficial to you. For example, E-House's voting control may prevent a transaction involving a change of control of us, including transactions in which you as a holder of our ADSs might otherwise receive a premium for your securities over the then-current market price. In addition, E-House is not prohibited from selling a controlling interest in us to a third party and may do so without your approval and without providing for a purchase of your ADSs. If E-House is acquired or otherwise undergoes a change of control, any acquirer or

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successor will be entitled to exercise the voting control and contractual rights of E-House, and may do so in a manner that could vary significantly from that of E-House.

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The proposed going private transaction of E-House may materially affect our corporate structure, business and operations.

On June 9, 2015, E-House's board of directors received a preliminary non-binding proposal letter from Mr. Xin Zhou, co-chairman of the board of directors and chief executive officer of E-House, and Mr. Neil Nanpeng Shen, a member of E-House's board of directors, to acquire all of E-House's outstanding ordinary shares not already owned by Mr. Zhou, Mr. Shen or their respective affiliates. On June 19, 2015, E-House was informed that SINA had joined the buyer group by entering into a consortium agreement with Mr. Zhou and Mr. Shen, pursuant to which they had agreed to, among other things, form a consortium to work exclusively with one another to undertake the going-private transaction to acquire all of E-House's outstanding shares other than the shares owned by the consortium members or their affiliates. E-House was also informed that SINA had agreed to exchange all the E-House shares held by SINA at the closing of the going-private transaction for a portion of the ordinary shares of Leju held by E-House at the closing, based on an exchange ratio determined in accordance with a mutually agreed formula. On April 15, 2016, E-House entered into a merger agreement with E-House Holdings Ltd., or the Parent, and E-House Merger Sub Ltd., or the Merger Sub, a wholly owned subsidiary of the Parent. Subject to satisfaction of the terms and conditions under the merger agreement, at the effective time of the merger the Merger Sub will merge with and into E-House, with E-House continuing as the surviving corporation and a wholly-owned subsidiary of the Parent. If the merger and the share exchange is consummated as contemplated, SINA will become a principal shareholder of our company, and may exercise its voting power and other rights as principal shareholder in a manner that vary significantly from that of E-House. In addition, we cannot rule out the possibility that the buyer consortium will create security interest over E-House's assets, including E-House's shares in our company, at the closing of the going-private transaction, in order to obtain financing from their financing sources, which may result in a reduction of E-House's shareholding in our company in the event of default. If E-House's shareholding in our company decreases, E-House may not continue to provide the same level of support as it currently does, and our business and operations may be materially and adversely affected.

We are a controlled company within the meaning of the Corporate Governance Rules of the NYSE and, as a result, qualify for, and intend to rely on, exemptions from certain corporate governance requirements.

Immediately after the closing of our initial public offering and the concurrent private placement to Tencent, E-House held 76.3% of our then outstanding ordinary shares. As of March 31, 2016, E-House held 69.3% of our outstanding ordinary shares. We have been a controlled company within the meaning of applicable corporate governance standards since our initial public offering. Under the Corporate Governance Rules of the NYSE, a company of which more than 50% of the voting power is held by an individual, group or another company is a controlled company and may elect not to comply with certain corporate governance requirements, including:

- the requirement that we have a majority of independent directors on our board of directors;
- the requirement that we have a nominating committee that is composed entirely of independent directors with a written charter addressing the committee's purpose and responsibilities;
- the requirement that we have a compensation committee that is composed entirely of independent directors with a written charter addressing the committee's purpose and responsibilities; and

- the requirement for an annual performance evaluation of the nominating and compensation committees.

Following our initial public offering, we have been utilizing, and intend to continue to utilize the foregoing exemptions from the applicable corporate governance requirements. As a result, we do not have a majority of independent directors nor a separate nominating committee. In addition, our compensation committee does not consist entirely of independent directors and we are not required to have an annual performance evaluation of the compensation committee. See Item 6. Directors, Senior Management and Employees C. Board Practices. Accordingly, you will not have the same protections afforded to shareholders of companies that are subject to all of the applicable corporate governance requirements.

We may have conflicts of interest with E-House and, because of E-House's controlling 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.

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- *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.
- *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 co-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 sell 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 controlling 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 our company has become a stand-alone public company, we operate, for as long as E-House is our controlling shareholder, as an affiliate of E-House. 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 Jiajujiu 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 Jiajujiu 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 and our real estate advertising 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 the PRC. Accordingly, these contracts would be interpreted in accordance with PRC law and any disputes would be resolved in accordance with PRC legal procedures. If any of the other parties fail 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 the PRC is not as developed as in other jurisdictions, such as the United States. As a result, uncertainties in the PRC legal system could limit our ability to enforce these contractual arrangements, 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.

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In 2013, 2014 and 2015, Beijing Leju, Shanghai Yi Xin, Beijing Jiajujiu and their respective subsidiaries and branches contributed in aggregate 94.3%, 97.7% and 97.0% 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.

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, Beijing Leju, Shanghai Yi Xin, and Beijing Jiajujiu. These individuals may have conflicts of interest with us. Each of Shanghai Yi Xin and Beijing Jiajujiu is 70% owned by Mr. Zuyu Ding, E-House's co-president and 30% owned by Mr. Weijie Ma, our co-president. Beijing Leju is 80% owned by Mr. Xudong Zhu, the head of E-House's offline advertising operations, and 20% owned by Mr. Zuyu Ding, E-House's co-president. None of Mr. Zhu, Mr. Ding and Mr. Ma has a significant equity stake in our company. 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 constitute 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 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. The MOC is currently soliciting comments on this draft and 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, or an FIE. The draft Foreign Investment Law specifically provides that entities established in China but controlled by foreign investors will be treated as FIEs, whereas an entity set up in a foreign jurisdiction would nonetheless be, upon market entry clearance by the 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 an FIE 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 FIEs, if they are ultimately controlled by foreign investors. Therefore, for any companies with a VIE structure in an industry category that is on the negative list, the VIE structure may be deemed legitimate only if the ultimate controlling person(s) is/are of PRC nationality (either PRC 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 FIEs and any operation in the industry category on the negative list without market entry clearance may be considered as illegal.

Our controlling shareholder, E-House, held approximately 69.3% of our voting power, and our record shareholders in the United States held approximately 12% of our total voting power, as of March 31, 2016. 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 Chinese parties, while it is soliciting 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.

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

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

The PRC government imposes controls on the convertibility of 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 the 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. 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 RMB may have a material and adverse effect on your investment.

The value of the RMB 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 RMB to the U.S. dollar, and the RMB 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 RMB and the U.S. dollar remained within a narrow band. Since June 2010, the RMB has fluctuated against the U.S. dollar, at times significantly and unpredictably. It is difficult to predict how market forces or PRC or U.S. government policy may impact the exchange rate between the RMB and the U.S. dollar in the future.

As our costs and expenses are mostly denominated in RMB, the appreciation of the RMB 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 RMB, any significant depreciation of the RMB 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 RMB for our operations, appreciation of the RMB against the U.S. dollar would have an adverse effect on the RMB amount we receive from the conversion. Conversely, if we decide to convert our RMB 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 RMB 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 RMB 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 of 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, on July 4, 2014, which replaced the 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 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. 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. We intend to cause such applications to be submitted in the near future.

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 SAFE Shanghai Branch. 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.

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PRC regulations relating to acquisitions in China require us to obtain certain approvals from the Ministry of Commerce 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 Ministry of Commerce in 2009, include provisions that purport to require the Ministry of Commerce'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 Ministry of Commerce approval requirement on foreign acquisitions among related parties.

We have entered into contractual arrangements with each of Beijing Leju, Shanghai Yi Xin and Beijing Jiajujiu 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.

If the Ministry of Commerce 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 Ministry of Commerce. Inability to obtain such approval or waiver from the Ministry of Commerce may have a material and adverse effect on our business. Further, we may be subject to certain administrative punishments or other sanctions from the Ministry of Commerce. The Ministry of Commerce or other regulatory agencies may impose fines and penalties on our operations in the PRC, limit our operating privileges in the PRC, delay or restrict the repatriation of U.S. dollars into the PRC, 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.

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 PRC Ministry of Commerce 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 PRC Ministry of Commerce when the threshold under the Provisions on Thresholds for Prior Notification of Concentrations of Undertakings, or the Prior Notification Rules, 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 PRC Ministry of Commerce 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 PRC Ministry of Commerce, 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 PRC Ministry of Commerce 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 PRC Ministry of Commerce 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 the PRC, 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.

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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 the PRC. 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 Chinese accounting standards and regulations. In addition, each of our PRC subsidiaries is required to set aside a certain amount of 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 Chinese 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.

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 the SAFE. The statutory limit for the total amount of foreign debt of a foreign-invested company is the difference between the amount of total investment and the amount of registered capital of such foreign-invested company as approved by the Ministry of Commerce or its local counterpart. The current statutory limit on the loans we may make to Beijing Maiteng, our PRC subsidiary, is HK\$40 million (\$5.2 million). The current total investment in each of our other PRC subsidiaries, namely, Shanghai SINA Leju, Shanghai Yi Yue, E-House City Rehouse Real Estate Broker (Shanghai) Co., Ltd., or City Rehouse, Leju (China) Internet Technology Co., Ltd, or Leju IT, and Shanghai Fangxin Information Technology Co., Ltd., or Shanghai Fangxin, is in the same amount of their respective registered capital. In order for us to make loans to any of our PRC subsidiaries, the subsidiary would need to apply to the Ministry of Commerce or its local counterpart to increase its total investment. The permitted maximum amount of foreign loans that the subsidiary is eligible to raise would be equal to the difference between the total investment and the registered capital. After the increase of total investment is approved by the Ministry of Commerce or its local counterpart, we may extend loans to the relevant PRC subsidiary in an amount that does not exceed the difference referenced above. Any loans we extend to our consolidated variable interest entities or other PRC operating companies that are domestic PRC entities, must be approved by the National Development and Reform Commission or its local counterpart and must also be registered with SAFE or its local branches.

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We may also decide to finance our PRC subsidiaries by means of capital contributions. According to the relevant PRC regulations on foreign-invested enterprises in China, these capital contributions are subject to approval by the Ministry of Commerce or its local counterpart. In addition, the 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. On March 30, 2015, SAFE issued the Circular on the Reforming of the Management Method of the Settlement of Foreign Currency Capital of Foreign-Invested Enterprises, which will be valid on June 1, 2015, or SAFE Circular 19. Under SAFE Circular 19, a foreign-invested enterprise may choose converting its registered capital from foreign currency to Renminbi on self-discretionary basis, and the Renminbi capital converted can be used for equity investments within PRC, which will be regarded as the reinvestment of foreign-invested enterprise. Before the promulgation of SAFE Circular 19, the SAFE had strong oversight in this area, but also introduced reforms to facilitate the business and capital operations of foreign invested enterprises. In 2008, the SAFE promulgated the Circular on the Relevant Operating Issues Concerning the Improvement of the Administration of Payment and Settlement of Foreign Currency Capital of Foreign Invested Enterprises, or SAFE Circular 142, regulating the conversion by a foreign-invested enterprise of foreign currency registered capital into Renminbi by restricting how the converted Renminbi may be used. The use of such Renminbi fund may not be altered without SAFE approval, and such Renminbi fund may not in any case be used to repay Renminbi loans if the proceeds of such loans have not been used. In August 2014, the SAFE issued the Circular on the Relevant Issues Concerning the Launch of Reforming Trial of the Administration Model of the Settlement of Foreign Currency Capital of Foreign-Invested Enterprises in Certain Areas, or SAFE Circular 36, which suspended the application of SAFE Circular 142 in certain areas and allowed a foreign-invested enterprise registered in the designated areas to use the RMB capital converted from foreign currency registered capital for equity investments within the PRC., which is regarded as the reinvestment of foreign-invested enterprise. After the SAFE Circular 19 becomes valid, both SAFE Circular 142 and SAFE Circular 36 will be abolished.

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.

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The discontinuation of any of the preferential tax treatments currently available to us in the PRC 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 and the Ministry of Finance effective as of February 22, 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 SINA Leju was recognized as a qualified software enterprise in February 2009 and was further approved by the local tax authority in June 2009, and, thus, became eligible to be exempted from income tax for 2009, followed by a 50% reduction in income tax from 2010 through 2012. Another wholly owned subsidiary, Shanghai Fangxin, 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 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 or Shanghai Fangxin fails to maintain software enterprise status or high and new technology enterprise status, their applicable enterprise income tax rate may increase to up to 25%, which 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.

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.

On February 3, 2015, the State Administration of Taxation, or the SAT, issued the Notice on Several Issues Concerning Enterprise Income Tax for Indirect Share Transfer by Non-PRC Resident Enterprises, or 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 SAT Circular 698, issued by the SAT in 2009. Pursuant to 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 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

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obligated to make payments for the transfer has a withholding obligation. Although SAT Bulletin 7 does not apply to share transfers of publicly traded companies, there is uncertainty as to the application of SAT Bulletin 7 or previous rules under SAT Circular 698. We and our non-PRC resident investors may be at risk of being subject to tax filing or withholding obligations under SAT Bulletin 7 and we may be required to expend valuable resources to comply with SAT Bulletin 7 or to establish that we should not be taxed under 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.

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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 Administrative Measures for Non-Residents Enjoying Tax Treaty Benefits (Trial Implementation), effective on October 1, 2009, our Hong Kong subsidiaries need to obtain approval from the relevant local branch of the State Administration of Taxation 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 and Prevention of Fiscal Evasion with respect to Taxes on Income. The PRC State Administration of Taxation 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.

In addition, under the EIT Law, enterprises organized under the laws of jurisdictions outside of 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 State Administration of Taxation 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 the PRC; (ii) its financial and human resources decisions are subject to determination or approval by persons or bodies in the PRC; (iii) its major assets, accounting books, company seals, and minutes and files of its board and shareholders meetings are located or kept in the PRC; and (iv) more than half of the enterprise's directors or senior management with voting rights reside in the PRC.

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.

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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.

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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 PRC Ministry of Commerce 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 PRC Ministry of Commerce 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.

The latest Foreign Investment Industrial Guidance Catalogue, which became effective on April 10, 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 PRC Ministry of Commerce 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.

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 22 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 11 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 2 entities, and are in the process of preparing the relevant application documents with respect to all the remaining 9 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 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 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 PCAOB.

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Inspections of other firms that PCAOB has conducted outside of 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 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 PCAOB inspections and lose confidence in our reported financial information and procedures and the quality of our financial statements.

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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, or the CSRC.

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 PRC-based accounting firms' audit documents via the CSRC. 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.

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 the PRC, 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 2015, the closing price of our ADSs on the New York Stock Exchange, or the NYSE, varied from a high of \$13.30 to a low of \$4.38.

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 China-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 Chinese companies' securities after their offerings may affect the attitudes of investors toward Chinese 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 China-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 Chinese companies may also negatively affect the attitudes of investors towards Chinese 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.

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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;
- 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.

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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, 2016, we had 139,489,416 ordinary shares issued, including the 4,243,550 ordinary shares that had been issued to our depositary and reserved for future grants under our share incentive plan, and 93,694,920 and 21,231,220 ordinary shares were held by E-House and Tencent, respectively. The sale or perceived sale of a substantial amount of our ADSs by E-House or Tencent 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.

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.

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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 (2013 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.

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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 of 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.

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 days. When a general meeting is convened, you may not receive sufficient notice of a shareholders' meeting to permit you to withdraw the ordinary shares underlying 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 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

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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 ordinary shares underlying 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.

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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.

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.

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.

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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.

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We may be classified as a passive foreign investment company, or PFIC, 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, 2015 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 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 our parent company, E-House, a leading real estate services company in China listed on the NYSE. E-House has remained our parent company and controlling shareholder after our initial public offering in April 2014. 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 Jiajujiu 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 Jiajujiu 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 are a subsidiary of and controlled by E-House. E-House first reported its real estate online services business as a separate segment in its annual report on Form 20-F for the year ended December 31, 2009. 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 Carve-out from E-House and Our Relationships with E-House.

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. As of March 31, 2016, E-House owned 93,694,920 ordinary shares of us, representing approximately 69.3% of our total outstanding ordinary shares.

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 Tencent's social communication platform, 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 media service, Tencent Weibo; the social networking service Qzone; and/or certain other Tencent wholly-owned internet properties in China.

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 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

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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, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. In addition, we have 57 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 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 various mobile platforms, including over 50,000 on Weibo and over 70,000 on Weixin.

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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.

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.

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.

We have experienced substantial growth in recent years. Our total revenues have increased from \$335.4 million in 2013 to \$496.0 million in 2014 and to \$575.8 million in 2015. We generated net income of \$42.7 million, \$66.7 million and \$34.8 million in 2013, 2014 and 2015, respectively. We had adjusted net income of \$63.4 million, \$90.9 million and \$56.9 million in 2013, 2014 and 2015, respectively. 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; the microblog, SinaWEIBO; the social communication platform 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.

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

New residential property websites that we operate include *house.sina.com.cn* and *leju.com*. Viewers are automatically directed to a local website with localized real estate information and services, covering over 260 cities. On *house.sina.com.cn* and our website, *leju.com*, we offer customers the ability to purchase discount coupons for property purchases. We also operate *esf.sina.com.cn*, an existing residential property website. Viewers are automatically directed to a local website with localized real estate information and services, covering 60 cities. Home furnishings websites that we operate include *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*, 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 74 cities. We also outsource 189 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.

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Mobile Applications

Our mobile applications include Pocket Leju, Leju Er Shou Fang, Fang Niu Jia and Pocket Renovation, each of which has version for the iOS and Android operating systems.

- *Pocket Leju* is China's first mobile real estate e-commerce platform. Pocket Leju provides personalized services to potential buyers of new and existing homes, and potential residential renters. These services include 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. Pocket Leju also assists buyers with home purchasing procedures.
- *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.
- *Pocket Renovation* provides a variety of styles for high-quality home decoration to users. Users of Pocket Renovation can directly contact designers and contractors via telephone and other modes for renovation consultations. Pocket Renovation also provides favorable promotions, discounts on home decoration goods, knowledge for various stages of renovations, decoration diaries posted by users and other services to users and provides a renovation budget analysis system and billing management system to help the users manage the financial aspects of the renovation.

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 Tencent's social communication platform, 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 media service, Tencent Weibo; the social networking service, Qzone; and/or certain other Tencent wholly-owned internet properties in China. We had opened 73,834 project-related official accounts on Weixin by December 31, 2015.

In March 2014, we launched our mobile e-commerce platform based on (i) existing mobile applications developed by our company, including Pocket Leju and Fang Niu Jia, and (ii) SINA's Weibo and Tencent's 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

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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 Kuaidi, a leading taxi and car service company 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

The majority of our e-commerce revenue is 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 2013, 2014 and 2015 were \$170.2 million, \$326.7 million and \$420.6 million, respectively, representing 50.7%, 65.9% and 73.0%, 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 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 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 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.

	Three months ended March 31, 2015	Three months ended June 30, 2015	Three months ended September 30, 2015	Three months ended December 31, 2015
Number of discount coupons issued to prospective purchasers (number of transactions)	40,765	94,489	70,641	98,051
Number of discount coupons redeemed (number of transactions)(1)	32,111	52,413	57,303	61,567

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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, or Unionpay, to use its payment platform to collect payments for discount coupons. Under our agreement with Unionpay, we are Unionpay's exclusive partner for real estate e-commerce services during the term of our contract and Unionpay has agreed not to provide e-payment services to other real estate internet enterprises. The term of the agreement is for two years through 2015 and will be automatically renewed for another two years unless either party provides written notice of cancellation. Either party may terminate the agreement upon 30 days written notice to the other party. Under the agreement, Unionpay provides customers with the ability to make online or on-site payments.

Financial services products. In connection with our discount coupon offerings, we also offer to qualified home purchasers various financial services products, with a view of facilitating the integration of real estate e-commerce with financial services, increasing liquidity and improving the overall purchasing power of home purchasers in China. In November 2013, we formed a strategic partnership with CITIC, pursuant to which CITIC introduced Leju Loan through our online platform. Through Leju Loan, qualified home purchasers who purchase real estate through our real estate e-commerce platform at leju.com can obtain a line of credit from CITIC by pledging their existing properties as collateral. In July 2014, we also began to offer the Easy Home Plan, which allows qualified home purchasers to obtain a bridge loan of up to 50% of the down payment through Leju e-Loan, a product offered through Fang Jin Suo platform, the first online real estate financial services platform in China. The Fang Jin Suo platform was jointly developed by E-House, SINA and Sequoia Capital. We currently do not have revenues from these products. We believe that the offering of these products makes our online platform more attractive to both developers and home purchasers.

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.

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.

Online Advertising

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 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.

Our revenues generated from advertising services in 2013, 2014 and 2015 were \$145.4 million, \$155.1 million and \$134.2 million, respectively, representing 43.4%, 31.2% and 23.3%, respectively, of our total revenues for those periods.

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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. Aided by 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.

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. Our revenues generated from advertising on SINA websites represented 90.5%, 89.9% and 90.1%, respectively, of our total revenues from online advertising in 2013, 2014 and 2015.

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.

Most of our revenues generated by our arrangements with Baidu are derived from sales of the Brand-Link product. Our revenues generated from advertising on Baidu websites represented 9.5%, 10.1% and 9.9% of our total revenues from online advertising in 2013, 2014 and 2015, respectively.

Listing

We offer online residential listing services for sales and leases of existing residential properties. Our listing services are currently offered in 17 cities where we maintain a local sales force. Our revenues generated from online listing services in 2013, 2014 and 2015 were \$19.8 million, \$14.3 million and \$21.0 million, respectively, representing 5.9%, 2.9% and 3.7%, respectively, of our total revenues for those periods. Real estate agents and property owners use our listing services. Payment of the listing fees entitle 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 for a fixed number of listings. 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.

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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.

We conduct advertising activities in 74 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 1,276 personnel as of December 31, 2015. 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 apply 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 Lunar 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 primary competitor at the national level is *fang.com*, formerly *soufun.com*. In addition, we have faced and may continue to face competition from regionally focused websites providing regional real estate listings together with localized services. We have various regional competitors, such as *house365.com* in the Nanjing market, and we compete with various providers in the market for online paid property listings, including *58.com*, which acquired *anjike.com* in 2015. 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, Shanghai, Guangzhou and Tianjin. 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.

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