
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 20-F

(Mark One)

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

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

For the fiscal year ended December 31, 2017

OR

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

For the transition period from _____ to _____

OR

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

Date of event requiring this shell company report:

COMMISSION FILE NUMBER: 001-34862

Fang Holdings Limited

(Exact name of registrant as specified in its charter)

N/A

(Translation of Registrant's name into English)

Cayman Islands

(Jurisdiction of incorporation or organization)

Block A, No. 20 Guogongzhuang Middle Street
Fengtai District, Beijing 100070
The People's Republic of China
(Address of principal executive offices)

Contact Person: Executive Chairman

Telephone: +86-10-5631 8000

Fax: +86-10-5631 8010

(Telephone, E-mail and/or Facsimile Number of Company Contact Person)

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

Title of Each Class	Name of Each Exchange on Which Registered
American depository shares (five American depository shares representing one Class A ordinary share, par value HK\$1.00 each)	The New York Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Act: None
Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

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:

Class A ordinary shares, par value HK\$1.00 each	64,360,062
Class B ordinary shares, par value HK\$1.00 each	24,336,650

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (? 229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer
Emerging growth company

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

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

U.S. GAAP International Financial Reporting Standards as issued by the International Accounting Standards Board Other

If “Other” has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow: Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

TABLE OF CONTENTS

	<u>Page</u>
Introduction	1
Forward Looking Statements	2
PART I	3
Item 1. Identity of Directors, Senior Management and Advisers	3
Item 2. Offer Statistics and Expected Timetable	3
Item 3. Key Information	3
Item 4. Information on the Company	37
Item 4A. Unresolved Staff Comments	61
Item 5. Operating and Financial Review and Prospects	61
Item 6. Directors, Senior Management and Employees	84
Item 7. Major Shareholders and Related Party Transactions	98
Item 8. Financial Information	103
Item 9. The Offer and Listing	103
Item 10. Additional Information	104
Item 11. Quantitative and Qualitative Disclosures About Market Risk	112
Item 12. Description of Securities Other Than Equity Securities	113
PART II	116
Item 13. Defaults, Dividend Arrearages And Delinquencies	116
Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds	116
Item 15. Controls and Procedures	116
Item 16A. Audit Committee Financial Expert	117
Item 16B. Code of Ethics	118
Item 16C. Principal Accountant Fees and Services	118
Item 16D. Exemptions from the Listing Standards for Audit Committees	118
Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers	118
Item 16F. Change in Registrant's Certifying Accountant	119
Item 16G. Corporate Governance	119
Item 16H. Mine Safety Disclosure	119
PART III	120
Item 17. Financial Statements	120
Item 18. Financial Statements	120
Item 19. Exhibits	120
Signatures	125

INTRODUCTION

Except where the context otherwise requires and for purposes of this annual report on Form 20-F only:

- “we,” “us,” “our company,” “our,” “SouFun” or “Fang” refers to Fang Holdings Limited (formerly known as SouFun.com Limited and SouFun Holdings Limited), its subsidiaries, and, in the context of describing our operations and consolidated financial information, our consolidated controlled entities in China (also referred to as the PRC Domestic Entities and the PRC Domestic Entities’ subsidiaries in our consolidated financial statements and related notes included elsewhere in this annual report);
- “2018 Notes” refers to our \$400 million aggregate principal amount of convertible senior notes due 2018;
- “2022 Notes” refers to our \$300 million aggregate principal amount of convertible notes due 2022;
- “ADSs” refers to our American depository shares, with five ADSs representing one Class A ordinary share, and “ADRs” refers to American depository receipts, which, if issued, evidence our ADSs;
- “CSRC” refers to the China Securities Regulatory Commission;
- “China” or “PRC” or “Chinese” refers to the People’s Republic of China, excluding, for the purpose of this annual report only, the Hong Kong Special Administrative Region, the Macau Special Administrative Region and Taiwan;
- “Exchange Act” refers to the Securities Exchange Act of 1934, as amended;
- “Hong Kong dollars” or “HK\$” refers to the legal currency of the Hong Kong Special Administrative Region;
- “MIIT” refers to the Ministry of Industry and Information Technology and its compete local branches;
- “MOFCOM” refers to the Ministry of Commerce and its competent local branches;
- “MOHURD” refers to the Ministry of Housing and Urban-Rural Development and its competent local branches;
- “notes” refers to 2018 Notes and 2022 Notes, collectively;
- “PBOC” refers to People’s Bank of China;
- “RMB” or “Renminbi” refers to the legal currency of China;
- “SAFE” refers to the State Administration of Foreign Exchange and its competent local branches;
- “SAIC” refers to the State Administration for Industry and Commerce and its competent local branches;
- “SAT” refers to the State Administration of Taxation and its competent local branches;
- “SEC” refers to the U.S. Securities and Exchange Commission;
- “Securities Act” refers to the Securities Act of 1933, as amended;
- “shares” or “ordinary shares” refers to our ordinary shares, including both Class A ordinary shares and Class B ordinary shares;
- “sq.m.” refers to square meter(s); and
- “U.S. dollars,” “US\$” or “\$” refers to the legal currency of the United States of America.

This annual report includes our audited consolidated statements of comprehensive income for 2015, 2016 and 2017, our audited consolidated balance sheets as of December 31, 2016 and 2017, and our audited consolidated statements of cash flows for 2015, 2016 and 2017. On April 7, 2014, our ADSs ratio changed from one ADS for one Class A ordinary share to five ADSs for each Class A ordinary share. The data throughout this annual report has been revised to reflect the ratio change as if it had occurred prior to the historical periods presented herein.

FORWARD LOOKING STATEMENTS

This annual report contains forward-looking statements that involve risks and uncertainties. All statements other than statements of historical facts are forward-looking statements. These forward-looking statements are made under the “safe harbor” provisions of the U.S. Private Securities Litigation Reform Act of 1995. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from those expressed or implied by the forward-looking statements.

You can identify these forward-looking statements by words or phrases such as “may,” “will,” “expect,” “is expected to,” “anticipate,” “aim,” “estimate,” “intend,” “plan,” “believe,” “are 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, but are not limited to:

- our anticipated business activities and the expected impact of these actions on our 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;
- trends and competition in the real estate, home furnishings and improvement sites and online advertising industries; and
- PRC laws, regulations and policies relating to the real estate, home furnishings and improvement sites and advertising and financing industries and the use of the Internet to conduct these activities.

You should read this annual report and the documents that we refer to in this annual report thoroughly and 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, including the section titled “Risk Factors” beginning on page 6, 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. Except as required by law, we undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

MARKET AND INDUSTRY DATA

Market data and certain industry forecasts used in this annual report were obtained from internal surveys, market research, publicly available information and industry publications. Industry publications generally state that the information contained therein has been obtained from sources believed to be reliable, but that the accuracy and completeness of such information is not guaranteed. Similarly, internal surveys, industry forecasts and market research, while believed to be reliable, have not been independently verified, and we make no representation as to the accuracy of such information.

WHERE YOU CAN FIND MORE INFORMATION

We are subject to periodic reporting and other informational requirements of the Exchange Act, as applicable to foreign private issuers. Accordingly, we are required to file reports, including annual reports on Form 20-F, and other information with the SEC. As a foreign private issuer, we are exempt from the rules of the Exchange Act prescribing the furnishing and content of proxy statements to shareholders, and Section 16 short swing profit reporting for our officers and directors and for holders of more than 10% of our ordinary shares. All information filed with the SEC can be obtained over the Internet at the SEC's website at www.sec.gov or inspected and copied at the public reference facilities maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549. You can request copies of these documents, upon payment of a duplicating fee, by writing to the SEC. Please call the SEC at 1-800-SEC-0330 or visit the SEC website for further information on the operation of the public reference rooms.

We furnish JPMorgan Chase Bank, N.A., the depository, with our annual reports, which include a review of operations and annual audited consolidated financial statements prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP" or "GAAP"), and all notices of shareholders' meeting and other reports and communications that are made generally available to our shareholders. The depository makes such notices, reports and communications available to holders of ADSs and, upon our request, mails to all record holders of ADSs the information contained in any notice of a shareholders' meeting received by the depository from us.

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

On June 20, 2017, upon approval of our shareholders, Mr. Jingbo Wang was re-elected as a director of our board of directors and Mr. Mingqiang Bi was re-elected as an independent director of our board of directors and a member of the audit committee of the board. There were no other material changes to our directors, senior management and advisers in 2017.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. Selected Financial Data

We have derived our selected consolidated statement of comprehensive income data (except for ADS information) for 2015, 2016 and 2017 and our selected consolidated balance sheet data as of December 31, 2016 and 2017, from our audited consolidated financial statements included in this annual report. Our selected statement of comprehensive income data (except for ADS information) for 2013 and 2014 and our selected consolidated balance sheet data as of December 31, 2013, 2014 and 2015, have been derived from our audited consolidated financial statements not included in this annual report. Our financial statements have been prepared in accordance with U.S. GAAP.

Since January 1, 2015, we have separated the revenues from financial services from other value-added services in our consolidated statements of comprehensive income. The separation provides better operating information and is in line with the current development of our business. The change in presentation has been applied retrospectively to all periods presented.

You should read the following information 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 historical operating results presented below are not necessarily indicative of the results to be expected for any future fiscal period.

	Year Ended December 31,				
	2013	2014	2015	2016	2017
	(U.S. dollars in thousands, except share data and per ADS data)				
Consolidated statement of comprehensive income data:					
Revenues:					
E-commerce services	188,107	244,344	474,810	577,684	87,809
Marketing services	278,322	294,484	249,862	165,437	149,267
Listing services	161,547	145,654	107,922	118,109	165,374
Financial services	—	3,235	29,582	29,602	12,055
Other value-added services	9,403	15,165	21,373	25,559	29,791
Total revenues	637,379	702,882	883,549	916,391	444,296
Cost of revenue:					
Cost of services	(102,488)	(145,739)	(555,389)	(687,184)	(174,599)
Total cost of revenues	(102,488)	(145,739)	(555,389)	(687,184)	(174,599)
Gross profit	534,891	557,143	328,160	229,207	269,697
Operating income (expenses):					
Selling expenses	(101,935)	(147,874)	(236,603)	(229,817)	(91,250)
General and administrative expenses	(83,384)	(100,571)	(125,405)	(151,251)	(135,688)
Other income (loss)	786	835	(625)	415	(567)
Operating income (loss)	350,358	309,533	(34,473)	(151,446)	42,192
Foreign exchange gain (loss)	3	(44)	1,464	(1,882)	15
Interest income	27,803	43,857	22,221	11,367	11,322
Interest expense	(14,675)	(17,308)	(16,519)	(20,791)	(16,153)
Change in fair value of trading securities					518
Realized gain on available-for-sale securities (including accumulated other comprehensive income reclassifications for unrealized gain on available-for-sale securities of US\$10,583 and US\$2,736 for the year ended December 31, 2016 and 2017, respectively)	821	—	—	10,583	2,736
Government grants	4,031	7,205	4,936	6,469	3,154
Investment income	—	—	1,333	3,281	6,692
Other non-operating loss					(4,562)
Impairment on investments	—	(8,417)	—	(2,232)	(2,768)
Gain on bargain purchase	102	—	—	—	
Income (loss) before income taxes and noncontrolling interests	368,443	334,826	(21,038)	(144,651)	43,146
Income tax (expenses) benefit	(69,781)	(81,609)	5,905	(24,984)	(21,442)
Net income (loss)	298,662	253,217	(15,133)	(169,635)	21,704
Net (loss) income attributable to noncontrolling interests	53	—	(37)	—	(3)
Net income (loss) attributable to Fang Holdings Limited's shareholders	298,609	253,217	(15,096)	(169,635)	21,707
Other comprehensive income (loss), before tax:					
Foreign currency translation adjustments	20,150	(4,323)	(55,928)	(60,732)	56,571
Unrealized gain (loss) on available-for-sale securities	78	10,508	(4,002)	7,326	212,838
Amounts reclassified from accumulated other comprehensive income	—	—	—	(10,583)	(2,736)
Gain (Loss) on intra-entity foreign transactions of long-term-investment nature	—	—	—	(6,996)	1,872
Reclassification adjustment for loss (gain) included in net income	(821)	—	—	—	—
Other comprehensive income (loss), before tax	19,407	6,185	(59,930)	(70,985)	268,545
Income tax expense related to components of other comprehensive income	—	—	—	—	(49,566)
Other comprehensive income, net of tax	19,407	6,185	(59,930)	(70,985)	218,979
Comprehensive income (loss)	318,069	259,402	(75,063)	(240,620)	240,683
Comprehensive (loss) income attributable to noncontrolling interests	53	—	(37)	—	(3)
Comprehensive income (loss) attributable to Fang Holdings Limited's shareholders	318,016	259,402	(75,026)	(240,620)	240,686
Earnings (loss) per share for Class A and Class B ordinary shares:					
Basic	3.82	3.08	(0.18)	(1.81)	0.25
Diluted ⁽¹⁾	3.54	2.87	(0.18)	(1.81)	0.24
Dividend declared per ordinary share ⁽²⁾	0.99	1.00	0.87	—	—
Earnings (loss) per ADS:					
Basic	0.76	0.62	(0.04)	(0.36)	0.05

Diluted ⁽¹⁾	0.71	0.57	(0.04)	(0.36)	0.05
Weighted average number of Class A and Class B ordinary shares outstanding:					
Basic	78,101,205	82,163,135	85,170,886	93,605,749	88,475,665
Diluted	84,602,678	92,208,620	85,170,886	93,605,749	91,585,677
Weighted average number of outstanding ADS:					
Basic	390,506,025	410,815,675	425,854,430	468,028,745	442,378,325
Diluted	423,013,390	461,043,100	425,854,430	468,028,745	457,928,385
Share-based compensation expenses included in:					
Cost of revenues	1,143	782	471	443	364
Selling expenses	1,621	1,122	446	512	479
General and administrative expenses	4,264	2,779	3,485	5,597	6,375

(1) Earnings (loss) per share for Class A and Class B ordinary shares (diluted) and earnings (loss) per ADS (diluted) for each year from 2013 to 2017 have been computed, after considering the potential dilutive effect of the shares underlying employees' share options and convertible senior notes.

(2) Dividend declared per ordinary share represents the dividend declared divided by the number of outstanding ordinary shares as of the period end.

	As of December 31,				
	2013	2014	2015	2016	2017
	(U.S. dollars in thousands)				
Consolidated Balance Sheet Data:					
Cash and equivalents and short-term investments	591,148	809,944	880,480	379,457	284,077
Total current assets	963,653	1,173,457	1,514,738	793,210	748,412
Total assets	1,505,089	1,737,805	2,292,042	1,614,813	2,000,255
Long term loans	180,750	100,000	—	65,190	114,109
Convertible senior notes	350,000	393,568	287,887	295,268	291,365
Total Fang shareholder's equity	443,467	632,609	853,766	487,130	739,583

Exchange Rate Information

Our business is primarily conducted in China and substantially all of our revenues and expenses are denominated in Renminbi. This annual report contains translations of Renminbi amounts into U.S. dollars at specified rates solely for the convenience of the readers. The exchange rates of Renminbi into U.S. dollars are based on the exchange rate as set forth in the H.10 statistical release of the Federal Reserve Board. We make no representation that the Renminbi or U.S. dollar amounts referred to in this annual report could have been or could be converted into U.S. dollars or Renminbi, as the case may be, at any particular rate or at all. As of May 14, 2018, the noon buying rate was RMB6.3589 to US\$1.00.

The following table sets forth information concerning exchange rates between the Renminbi and the U.S. dollars 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.

	Noon Buying Rate			
	Period End	Average ⁽¹⁾	Low	High
		(RMB per US\$1.00)		
2013	6.0537	6.1412	6.2438	6.0537
2014	6.2046	6.1704	6.2591	6.0402
2015	6.4778	6.2869	6.4896	6.1870
2016	6.9430	6.6549	6.9580	6.4480
2017				
December	6.5063	6.5932	6.6210	6.5063
2018				
January	6.2841	6.4233	6.5263	6.2841
February	6.3280	6.3183	6.3471	6.2649
March	6.2726	6.3174	6.3565	6.2685
April	6.2958	6.2958	6.3424	6.2675
May (through May 14, 2018)	6.3589	6.3511	6.3610	6.3325

Source: Federal Reserve Board.

(1) Annual averages are calculated by using the average of the exchange rates on the last day of each month during the relevant year. Monthly averages are calculated by using the average of the daily rates during the relevant month.

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

An investment in our ADSs or notes involves risks. You should carefully consider the risks described below, as well as the other information included or incorporated by reference in this annual report, before making an investment decision. Our business, financial condition or results of operations could be materially adversely affected by any of these risks. The market or trading price of our ADSs or notes could decline due to any of these risks, and you may lose all or part of your investment. In addition, the risks discussed below also include forward-looking statements and our actual results may differ substantially from those discussed in these forward-looking statements. You should also review the section of this annual report captioned "Forward-Looking Statements." Please note that additional risks not presently known to us, that we currently deem immaterial or that we have not anticipated may also impair our business and operations.

Risks related to our business

Our business could be materially and adversely affected by fluctuations in, and government measures influencing, China's real estate industry.

We conduct our real estate services business primarily in China, and our business depends substantially on conditions of the PRC real estate market. In particular, our new home business, which accounted for 57.7%, 47.2% and 34.2% of our total revenues in 2015, 2016 and 2017, respectively, depends upon growth in the real estate-related industry nationwide and in specific regions in China. Demand for private residential property in China has grown rapidly in recent years, but such growth is often coupled with volatility in market conditions and fluctuation in property prices. Fluctuations of supply and demand in China's real estate market are caused by economic, social, political and other factors. To the extent fluctuations in the real estate market adversely affect the demand for real estate and home-related products and services and for real estate- and home-related advertising and financing, demand for our products and services, as well as the level of our growth and profitability, may be materially reduced.

The real estate market in China is typically affected by changes in government policies affecting the real estate and financial markets and related areas. In the past, the PRC government has adopted various administrative measures to curb what it perceived as unsustainable growth in the real estate market, particularly when the real estate market in China experienced rapid and significant increases in home sales as well as prices. In February 2013, for example, the State Council announced certain plans to address the rapid increase in property prices in certain cities since late 2012, including raising minimum down-payments and loan rates for second home buyers in cities where prices experienced a rapid increase and enforcing a 20% capital gains tax on the sale of existing homes. In part due to these policies, the real estate market in China experienced a slowdown and real estate development declined in 2014. In March 2015, the PRC government issued a new policy to reduce the down-payment requirements and exempt certain home owners from paying sales taxes if they sell after owning the property for two years. Beginning in September 2016, certain cities, such as Beijing and Shanghai, increased the down-payment requirements again and tightened the determination of first home buyers who are often eligible for relaxed regulations. Relevant government authorities have recently also promulgated legislations to ban financings to home buyers for down-payment and ceased granting or renewing real estate broker licenses in certain cities. Beginning in March 2017, certain cities, such as Beijing and Guangzhou, further increased the minimum down-payments for second home buyers.

In addition to government policies aimed specifically at controlling growth in real estate markets in China, our business, financial condition and results of operations may also be negatively affected by other macroeconomic and regulatory measures. Any future policies in the following areas could cause a decline in home sales and prices, which in turn could affect the demand for our services and negatively impact our business, financial condition and results of operation:

- restrictive monetary policies adopted by the PRC government, including any significant increase in interest rates;
- adverse developments in the credit markets and/or mortgage financing markets resulting from PRC government policies;
- policies regarding land supply;
- significant increases in transaction costs as a result of changes in PRC government policies regarding transaction taxes, such as the sales tax on residential property sales by individuals within two years of purchase;
- adverse changes in PRC government policies regarding the acquisition and/or ownership of real estate;
- adverse changes in PRC national or local government policies or practices regarding brokerage, referral or related fees and commissions; or

- other PRC government policies or regulations that burden real estate transactions or ownership.

If we are unable to continue to obtain listings from our key customer groups, including real estate developers, agents, brokers and property owners and managers, our business, financial condition and results of operations could be materially and adversely affected.

We derive a significant portion of our revenues from our listing services. In 2015, 2016 and 2017, listing service revenues represented approximately 12.2%, 12.9% and 37.2% of our total revenues, respectively, and represented our largest source of revenues in 2017. The success of the listing service business depends on our ability to persuade real estate developers, real estate agents, brokers, developers and property owners and managers to list their properties on our websites and mobile apps. We believe having large numbers of high-quality listings from such real estate professionals attracts users to our websites and mobile apps, thereby enhancing our attractiveness to advertisers and other real estate market participants. However, substantially all of our listing agreements are nonexclusive. Our listing customers may stop using our listing services and may choose to use the services of one or more of our competitors or seek alternative means of listing, such as real estate magazines or newspapers. If owners of large numbers of property listings, such as major developers or large brokers or property owners in key real estate markets, choose not to renew their existing agreements with us, our websites and mobile apps could become less attractive to users. If we experience reduced user traffic on our websites and mobile apps, advertisers and other real estate market participants may discontinue the use of or be unwilling to pay for our services. In such an event, our competitive position could be significantly weakened and our business, financial condition and results of operations could be materially and adversely affected.

Our business depends substantially on revenues from our marketing services, and participants in the real estate and home-related sectors may choose other advertising media over online advertising or other online advertisers, which could lead to a decline in our revenues.

All of our marketing service revenues are generated through our websites and mobile apps, and we expect to continue to derive a significant portion of our revenues from marketing services. Marketing services accounted for 28.3%, 18.1% and 33.6% of our revenues in 2015, 2016 and 2017, respectively, constituting our second largest source of revenues in 2017. In particular, our new home business accounted for 87.7%, 87.4% and 81.4% of our marketing service revenues in 2015, 2016 and 2017, respectively. Our new home business primarily consists of sales of marketing services to residential property developers and their sales agents who are in the process of promoting newly developed properties for sale.

Although the online marketing industry in China has been growing, advertisers in the real estate sector in China have typically relied on traditional forms of advertising media, such as newspapers, magazines and outdoor advertising. If we are unable to retain and develop our base of advertising customers, including real estate developers, our business may not grow as quickly as we expect. Moreover, advertisers may not continue to do business with us if they do not perceive our marketing services to be effective or our user demographics to be desirable.

Our ability to continue to generate and maintain marketing service revenues depends on a number of factors, many of which are beyond our control, including:

- overall demand from property developers for online advertising;
- the amount of user traffic on our websites and mobile apps, our ability to achieve user demographic characteristics that are attractive to advertisers, and our ability to demonstrate such user traffic and demographic characteristics through our website traffic tracking tools and reporting systems;
- potential downward pressure on online marketing pricing due to increased competition from other online advertisers and traditional advertising media;
- widespread adoption of technologies that permit Internet users to selectively block unwanted web views, including advertisements on web pages; and
- emergence and user acceptance of new marketing channels, including social networking platforms and “We Media.”

If we are unable to remain competitive and provide value to our advertisers, they may stop placing advertisements with us, which would have a material adverse effect on our business, financial condition and results of operations.

Our future growth depends in part on our ability to continue to offer our e-commerce services business.

Revenues from e-commerce services accounted for 53.7%, 63.0% and 19.8 % of our total revenues for 2015, 2016 and 2017, respectively. We generate a majority of our e-commerce services revenues from online real estate brokerage services. We also offer direct sales services for new homes. We may not be able to attract and retain listings and sufficient home buyers to make our direct sales and online real estate brokerage services successful. We also became subject to government regulation over the contents we publish in connection with our online real estate brokerage services. In March 2017, one of our consolidated controlled entities had its real estate broker license revoked by relevant government authorities due to the publication of certain property development information, which was found by the government authorities to be in violation of relevant rules and regulations. The loss of the real estate broker license may adversely affect our business, and we may suffer negative publicity associated with such event. In addition, we offer paid Fang membership services, which primarily include offers to purchase properties with discounts from our partner developers and dedicated information and related services to facilitate property purchases. Although we generally have been able to maintain contractual arrangements with third-party property developers that provide discounts to our registered members and direct sales properties on acceptable terms, there can be no assurance that we will continue to be able to do so in the future. In addition, we cannot control the accuracy of information provided by the property developers, the quality of their properties or how they treat our registered members and customers in their transactions with them.

Whether we can continue to grow the business depends on our ability to manage these services effectively. Customer complaints or negative publicity about our e-commerce services could diminish consumer confidence in and use of our services. If we are unable to maintain or increase the number of partner developers or property developments for which discounts on purchase price and direct sales services are offered, increase our penetration of direct home sales and online real estate brokerage services and grow our member and agent base and increase transaction volume, our business and revenue growth prospects could be adversely impacted.

We derive a substantial portion of our revenues from several major urban centers in China, in particular, Beijing, Shanghai, Chengdu, Chongqing, Tianjin and Shenzhen and we face market risks due to concentration of our revenues in these major urban areas.

We derive a substantial portion of our revenues from several major urban centers in China, including Beijing, Shanghai, Chengdu, Chongqing, Tianjin and Shenzhen. In 2015, 2016 and 2017, we generated revenues of US\$468.7 million, US\$465.6 million and US\$180.5 million, respectively, from these six urban centers, representing 53.0%, 51.0% and 41.0%, respectively, of our total revenues. We expect these six urban centers to continue to be important regional sources of revenues in all of our revenue categories. If any of these major urban centers experience events which negatively impact the 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 revenue growth prospects could be materially and adversely impacted.

We may fail to compete successfully against current or future competitors, which could significantly reduce our market share and materially and adversely affect our business, financial condition and results of operations.

We face competition from other companies in each of our primary business activities. In particular, the online real estate Internet service market in China is becoming increasingly competitive. For example, in March 2015, 58.com, an online marketplace, acquired Anjuke.com, an online real estate sales and rental service provider in China, which will likely increase competition in our market. The barriers of entry for establishing Internet-based businesses are low, thereby allowing new entrants to emerge rapidly. As the online real estate Internet service industry in China is relatively new and constantly evolving, our current or future competitors may be able to better position themselves to compete as the industry matures. We also face competition from companies in other media that offer online advertising, online 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 Internet service 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 fees. Furthermore, our current competitors include major Internet portals in China that provide real estate Internet services, such as Sina.com and Sohu.com, which may have more established brand names, larger visitor numbers and more extensive Internet distribution channels than we do.

In addition, we have faced and may continue to face strong competition from regionally focused websites and mobile apps providing regional real estate listings together with localized services, as well as other emerging channels, including social network platforms and “We Media.” Any of our current or future competitors may also receive investments from or enter into other commercial or strategic relationships with larger, well-established and well-financed companies and obtain significantly greater financial, marketing and content licensing and development resources than us. Furthermore, some of our competitors receive support from local governments, which may place us at a disadvantage when competing with them in their local markets. We cannot assure you that we will be able to compete successfully against our current or future competitors. Any failure to compete effectively in the real estate Internet services market in China would have a material adverse effect on our business, financial condition and results of operations.

Failure to maintain and enhance brand awareness for our websites and mobile apps could lead to loss of existing customers and qualified personnel.

We believe maintaining and enhancing our brand name as a leading real estate Internet company in China is a critical part of our strategy. In July 2014, we changed the address of our principal website from www.soufun.com to www.fang.com. “Fang” means “home” in Chinese. In conjunction with our change of web address, we also launched our new “Fang Tian Xia” brand (“房天下” in Chinese, which can be approximately translated as “world of homes” in English). In September 2016, we changed our name to Fang Holdings Limited. We believe that this new and simplified address will be much easier for Chinese users to remember and access, thereby improving our brand recognition. In addition to promoting our websites and brand through our direct sales force, we also intend to continue to pursue other means to enhance brand awareness, including publication of real estate research reports, event sponsorships, portal collaboration arrangements, and advertising and marketing activities. We cannot assure you that our efforts will be successful in maintaining or enhancing our brand awareness. If our brand enhancement strategy is unsuccessful, or if other brands surpass our brand in market recognition in one or more cities in which we operate, we may fail to attract new or retain existing users, customers or qualified personnel, which could materially decrease our revenues and profitability.

Unauthorized use of our intellectual property by third parties, and the expenses incurred in protecting our intellectual property rights, may materially and adversely affect our business, financial condition, results of operations, reputation and competitive advantage.

Our copyrights, trademarks, trade secrets, domain names and other intellectual property are important to our business. Unauthorized use of such intellectual property, whether owned by us or licensed to us, may materially and adversely affect our business, financial condition, results of operations, reputation and competitive advantages. We rely on intellectual property laws and contractual arrangements with our key employees and certain of our customers, collaborators and others to protect our intellectual property rights. The measures we take to protect our intellectual property rights may not be adequate and policing the unauthorized use of our intellectual property is difficult and expensive.

In addition, the validity, enforceability and scope of protection of intellectual property in Internet-related industries in China are uncertain and still evolving, and could involve substantial risks. The laws and enforcement procedures in China are not yet well developed, and do not protect intellectual property rights to the same extent as laws and enforcement procedures in the United States and other jurisdictions. Furthermore, litigation may be necessary in the future to enforce our intellectual property rights, which could result in substantial costs and diversion of our resources and have a material adverse effect on our business, financial condition and results of operations. If we are unable to adequately protect the intellectual property rights that we own or use, we may lose these rights and our business, growth prospects and profitability may suffer.

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 MIIT, the General Administration of Press, Publication, Radio, Film and Television (formerly the State Press and Publications Administration) 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: (1) opposes the fundamental principles of the PRC constitution, (2) compromises state security, divulges state secrets, subverts state power or damages national unity, (3) disseminates rumors, disturbs social order or disrupts social stability, (4) propagates obscenity, pornography, gambling, violence, murder or fear or incites the commission of crimes, or (5) insults or slanders a third party or infringes upon the lawful right of a third party.

If any Internet content we offer through our consolidated controlled 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 and mobile apps in China.

If we fail to maintain the applicable licenses and approvals under the complex regulatory environment for Internet-based businesses and online advertising businesses in China, or fail to pass annual government inspection or obtain renewal of the business license, our business, financial condition and results of operations would be materially and adversely affected.

The Internet and online advertising industries in China are still at a relatively early stage of development and are highly regulated by the PRC government. Various regulatory authorities of the PRC government, such as the State Council, the MIIT, the 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.

We are required to obtain applicable licenses or approvals from various regulatory authorities in order to provide advertising and other value added services and products. These licenses or approvals are essential to the operation of our business and are generally subject to annual review by the relevant PRC governmental authorities. For example, each of Beijing Internet, Beijing Technology, Beijing JTX Technology, Beijing China Index, Beijing Tuo Shi Hong Ye Technology Development Co., Ltd. (“Beijing Tuo Shi Hong Ye”) and Beijing Gu Tian Xia Information Co., Ltd. (“Beijing Gu Tian Xia”) currently holds an ICP license, as required under the applicable PRC laws, rules and regulations; and each of Beijing Internet, Beijing Technology, Beijing JTX Technology, Beijing China Index and Beijing Gu Tian Xia currently holds an approval for operating electronic bulletin board services as required under the applicable PRC laws, rules and regulations. Beijing Advertising, Beijing Internet, Shanghai Advertising and certain other consolidated controlled entities are allowed to provide marketing services in accordance with the business scope indicated in each of their respective business licenses.

Some of our consolidated controlled entities, however, may be required to obtain additional licenses. For example, since our websites and mobile apps include online residential communities that allow visitors to post information, including graphics or weblinks to videos, other websites and mobile apps or data in microblogs or online discussion forums, on our websites and mobile apps for discussion with other users, the release of such information on our websites and mobile apps may be deemed as providing Internet publication services and therefore require Internet publication licenses. Similarly, if we or third parties post information that may be viewed as news information, the release of such information on our websites and mobile apps may be deemed as Internet news information services and therefore require Internet news information licenses. We, like many other similarly situated business operators, have been operating our businesses without such licenses. Certain of our relevant consolidated controlled entities have applied to the relevant government authorities for Internet publication licenses again in accordance with applicable PRC laws, rules and regulations, and pursuant to the request by the relevant governmental authorities, we are now preparing the relevant supplementary materials for such application. In addition, we are still in discussions with the relevant government authorities on our application for, and the authorities’ issuance of, Internet news information service licenses.

Moreover, certain services licenses, including, for example, the financing guarantee license, the online video recording and broadcasting license and real estate service licenses, held by certain of our subsidiaries, have expired, and the holders have applied for renewals, which are currently awaiting approval from the relevant regulators.

Under the applicable PRC laws, rules and regulations, the failure to obtain and/or maintain business licenses, an Internet publication licenses and/or Internet news information service licenses may subject the entity to various penalties, including confiscation of revenues, imposition of fines and/or restrictions on the entity conducting such activities’ business operations, or the discontinuation of their operations. Although our relevant consolidated controlled entities have not received any revenues directly from Internet publication services or Internet news information services, we cannot assure you that the PRC regulatory authorities will not impose any such penalties. Any such disruption in the business operations of our consolidated controlled entities could materially and adversely affect our business, financial condition and results of operations.

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 mobile apps 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 and mobile apps;
- 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 and mobile apps 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. All of our servers and routers, including back-up servers, are currently hosted by third-party service providers in Beijing and Shanghai and all information on our websites and mobile apps is backed up periodically. Any hacking, security breach or other system disruption or failure which occurs in between our backups 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.

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 and mobile apps to mirror our online resources, either of which could increase our expenses and reduce our net income.

Breaches of security in connection with our websites could expose us to potential liability and harm our reputation.

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. Any future security breaches, if any, may result in a material adverse effect on our business, financial condition and results of operations.

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

Our business depends on the performance and reliability of the Internet infrastructure in China. Substantially all access to the Internet is maintained through state-controlled telecommunication operators under the administrative control and regulatory supervision of 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 channels through which a domestic user can connect to the Internet. We cannot assure you that 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 the continued growth in Internet usage.

We also rely on China Telecommunications Corporation (“China Telecom”) and China United Network Communications Group Co., Ltd. (“China Unicom”) 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 Telecom and China Unicom, or if China Telecom or China Unicom 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 Telecom and China Unicom. 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.

You should not rely on our quarterly operating results as an indication of our future performance because our quarterly financial results are subject to fluctuations.

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 advertising and marketing activity 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. Furthermore, as we are substantially dependent on sales of listing, marketing and e-commerce services, our quarterly revenues and results of operations are likely to be affected by:

- seasonality of the real estate market and real estate consumers’ purchasing patterns;
- our ability to retain existing customers and attract new customers for our listing, marketing and e-commerce services;
- our ability to successfully introduce new service offerings on our platform;
- the amount and timing of our operating expenses and capital expenditures;
- the adoption of new, or changes to existing, governmental regulations;
- a shortfall in our revenues relative to our forecasts and a decline in our operating results; and
- economic conditions in general and specific to the real estate industry and to China.

These factors are difficult to discern in our historical results since our revenues have grown rapidly in recent years. As a result, you should not rely on our quarter-to-quarter comparisons of our results of operations as indicators of likely future performance.

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 an Internet portal company, we participate in an industry characterized by rapidly changing technology and new products and services. 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 mobile apps. 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. 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, which could affect our marketability as a popular advertising and listing media. If we are not successful in incorporating new Internet technologies, our future profitability and revenue growth could be materially and adversely affected.

Our revenues and profitability could suffer if we are unable to successfully implement our growth strategies or manage our growth effectively.

We intend to grow our business by rolling out our full suite of services, including listing, marketing, e-commerce and financial services, to more cities across China. We also plan to expand into new sectors. We intend to improve our open platform business by introducing a number of cloud products empowered by our strong big data capabilities. However, some of our growth strategies relate to new services and technologies for which there are no established markets in China or relate to services, technologies, new geographic markets or new businesses in which we have limited or no experience. We do not have experience providing these services and may not select the right third parties to partner with or establish or maintain some business relationship with them at commercially reasonable terms. Moreover, due to the breadth and diversity of the PRC real estate market and the PRC microfinance market as well as other industries and sectors we plan to expand into, our business model may not be successful in new and untested markets as demand and preferences may vary significantly by region. As a result, we may not be able to leverage our experience to expand into other parts of China or to enter into businesses with respect to new products or services. We cannot assure you that we will be able to successfully grow our business in our existing cities. There can be no assurance that we will be able to enter new geographic markets or deliver new services and technologies on a commercially viable basis or in a timely manner, or at all. If we are unable to successfully implement our growth strategies, our revenues and profitability may not grow as we expect, and our competitiveness may be materially and adversely affected.

Increases in the volume of our website traffic as a result of our expansion into new geographic regions could also strain the capacity of our existing computer systems, which could lead to slower response times or system failures. This would cause the number of real estate search inquiries, advertising impressions, other revenue producing offerings and our informational offerings to decline, any of which could significantly reduce our revenue growth and our brand loyalty. We may need to incur additional costs to upgrade our computer systems in order to accommodate increased demand if our systems cannot handle current or higher volumes of traffic. Mismanagement of any of our services in new or existing markets or the deterioration of the quality of our services could significantly damage our brand names and reputation and adversely impact our ability to attract and retain customers and visitor traffic.

Our growth plans place a significant demand on our management, systems and other resources. In addition to training and managing a growing workforce, we will need to continue to develop and improve our financial and management controls and our reporting systems and procedures. We cannot assure you that we will be able to efficiently or effectively manage the growth of our operations, and any failure to do so may limit our future growth and have a material adverse effect on our business, financial condition and results of operations.

We rely on the creditworthiness of our borrowers, which may limit our ability to recover from a defaulting borrower.

We launched our financial services focusing on the provision of loans to home buyers and other borrowers in 2015. A significant portion of our loan portfolio consists of secured loans. As of December 31, 2017, 10.9% of our outstanding loans receivable were unsecured. We have implemented credit evaluation procedures to enable us to select borrowers based on their creditworthiness. However, we do not have significant experience with assessing creditworthiness and loan underwriting and, as a result, our evaluation may not be reliable. We also do not have experience in collecting loans in default or working with borrowers to resolve payment difficulties with their loans. Our ability to recover payments from defaulting borrowers of unsecured loans may be more limited than those secured by collateral or mortgage. For our secured loans, the value of collateral securing our loans is subject to change, and may fall below the outstanding amount of the loans and thus be insufficient to cover our loss in the event of a customer default.

Our borrowers' ability to repay our loans is affected by a number of factors, including economic development in the regions where these borrowers reside or operate, market conditions in the industries where these borrowers conduct business, development of these borrowers' businesses, borrowers' employment situations and, in particular, as well as the conditions of the real estate market in China. If our borrowers default, we may apply to enforce our claims against the defaulting borrowers and their assets, including the collateral pledged to us, through court proceedings. However, the procedures for enforcing the assets and liquidating or otherwise realizing the value of the assets may be protracted or ultimately unsuccessful, and the enforcement process may be difficult for various reasons. As a result, if our borrowers default for any reason, our business, results of operations and financial condition may be materially and adversely affected.

As our financing business focuses on individuals for real estate purchases, we are exposed to greater credit risk than lenders that have a more diversified loan portfolio.

There are inherent risks associated with our financing business, particularly credit risk, which refers to the risk arising from a borrower's default on the repayment of our loan. Our financing business focuses on the provision of financial solutions to individuals for real estate purchases. These borrowers generally have limited financial resources to weather any adverse change in their financial condition, and therefore may expose us to greater credit risk compared to lenders focusing on corporate lending where the borrower has greater financial resources. Conditions such as inflation, economic downturn, local policy changes, and other factors beyond our control may also increase our credit risk more than such events would affect lenders with a more diversified loan portfolio.

In addition, as we provide financial solutions primarily to support real estate purchases, our financing business is indirectly affected by the overall conditions of the real estate market in China as well as the regulatory landscape. In recent years, the PRC government has adopted policies aimed specifically at controlling growth in the real estate market, and as a result the PRC real estate market experienced a slowdown and real estate development declined in 2014 and again in late 2016. Pursuant to Notice on Regulating the "Cash Loan" Business, issued by Office of the Leading Group for the Special Campaign against Internet Financial Risks and the Office of the Leading Group for the Special Campaign against Peer-to-peer Lending Risks on December 1, 2017, providing and regulatory update real property financing and other debt financing matchmaking services in relation to the purchase of real properties are prohibited. These economic trends may negatively affect the demand for our financial solutions, our ability to provide financial solutions to support real estate purchases, the value of the borrowers' real estate assets, including collateral used to secure our loans, and the borrowers' ability to repay our loans, thereby exposing us to greater credit risk than lenders that have a more diversified loan portfolio.

Our financing business is subject to various regulatory restrictions.

We obtained approvals to engage in the microfinancing business from government authorities of four cities, including Beihai, Shanghai, Chongqing and Tianjin. Pursuant to Notice on Regulating the "Cash Loan" Business, issued by Office of the Leading Group for the Special Campaign against Internet Financial Risks and the Office of the Leading Group for the Special Campaign against Peer-to-peer Lending Risks on December 1, 2017 ("Notice on Regulating Cash Loan"), internet microfinance businesses is strictly regulated. According to the Notice on Regulating Cash Loan, among other requirements, microfinance companies are required to suspend distribution of internet microloans that are not supported by specific scenarios and no specific purpose, gradually reduce the outstanding loan balance within the prescribed time limit and complete rectifications within the prescribed time limit. Our subsidiaries with microfinancing approvals in Shanghai and Chongqing also provide a small amount of unsecured loans for our employees, which may be deemed as "cash loans" and be prohibited under the Notice on Regulating Cash Loan.

According to the Guiding Opinions on the Pilot Operation of Microfinance Companies (the "Guiding Opinions") jointly issued by the China Banking Regulatory Commission and the PBOC on May 4, 2008, microfinance companies are limited liability companies or joint stock companies established with the capital contribution from natural persons, legal persons and other organizations, which do not accept public deposits and engage in the microfinance business. To set up a microfinance company, an applicant shall submit a formal application to the competent administrative departments at the provincial level. Upon approval, the applicant shall apply to the local branch of the SAIC to obtain a business license for the microfinance company. In addition, the applicant shall complete certain filings with the local police department, the local office of the China Banking Regulatory Commission and the local branch of the PBOC. According to the Guiding Opinions, a provincial government may launch pilot programs for microfinance companies within prefectural regions of the province only after it designates a department (finance office or other relevant institutions) to be in charge of supervision and administration of microfinance companies and is willing to be responsible for risk management and disposals with respect to microfinance companies. Consequently, microfinance companies are primarily regulated locally by provincial governments under rules and regulations promulgated by the provincial governments.

In November 2009, the provincial government of the Guangxi Zhuang Autonomous Region issued the Management Measures of Microfinance Companies in Guangxi Zhuang Autonomous Region. In 2014, we obtained approvals to engage in the microfinancing business from government authorities of Beihai city, Guangxi Zhuang Autonomous Region. Pursuant to the Management Measures of Microfinance Companies in Guangxi Zhuang Autonomous Region, Beihai Tian Xia Dai Microfinance Co., Ltd. ("Beihai Tian Xia Dai Microfinance") with microfinancing approvals cannot conduct microfinancing business outside Beihai city. However, Beihai Tian Xia Dai Microfinance provided loans outside Beihai city, and as a result, it may face the risk of being rectified by the relevant authorities.

Changes in the interest rates and spread could negatively affect the revenue generated from our financing business.

Our financing business generates revenue primarily from interest income. The interest rates we charge the borrowers are linked to the PBOC benchmark rate, which may fluctuate significantly due to changes in the PRC government's monetary policies. If we are required to lower the interest rates we charge our borrowers to reflect the decrease in the PBOC benchmark interest, the interest earned from our loans will decline. Furthermore, we may face fierce price competition, and as a result we may also lower our interest rates. Either case could negatively affect the revenue generated from our financing business.

We face intense competition in the real estate brokerage business in China.

Competition in the real estate service industry in China is intense, especially in major urban centers. Our online real estate brokerage services compete with nationwide real estate brokerage firms and regional competitors in each of the regions where we operate. Real estate brokers compete for sales and marketing business primarily on the basis of the services offered, reputation, brand recognition, sales network, local expertise and brokerage commission rates. Many of these companies have longer operating history, stronger brand recognition, more extensive sales networks and broader service offerings. Some of them may also have greater financial resources than we do. Competition could force us to reduce commission rates and increase expenses for recruiting and retaining sales professionals.

In addition, some of the real estate brokerage companies that we compete with are also customers of our listing and other services. Customers of our online real estate brokerage business may cease doing business with us and change to other marketing platforms, which would materially and adversely affect our business, our financial condition and results of operations.

The members of our senior management team, in particular, Mr. Vincent Tianquan Mo ("Mr. Mo"), our founding shareholder, director, executive chairman and chief executive officer, have played an important role in the growth and development of our business, and if we are unable to continue to retain their services, our business, financial condition and results of operations could be materially and adversely affected.

Our future success is significantly dependent upon the continued services of our senior management. In particular, Mr. Mo has played an important role in the growth and development of our business. To date, we have relied heavily on the expertise and experience of Mr. Mo and other senior management personnel in our business operations, including their extensive knowledge of the PRC real estate market, their strong reputation in the PRC real estate industry, and their relationships with our employees, relevant regulatory authorities and many of our customers. If Mr. Mo or other senior management personnel are unable or unwilling to continue in their present positions, we may not be able to locate suitable or qualified replacements and may incur additional expenses to identify their successors. In addition, if Mr. Mo or other senior management personnel joins a competitor or forms a competing company, we may lose our customers, and our collaboration arrangements may be disrupted, which would have a material adverse effect on our business, financial condition and results of operations. We do not maintain key-man insurance for Mr. Mo or other senior management personnel.

Failure to attract and retain qualified personnel 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 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. We cannot assure you we will be able to attract or retain the quality personnel that we need to achieve our business objectives. If we fail to successfully attract new personnel or retain and motivate our current personnel, we may lose competitiveness and our business, financial condition and results of operations could be materially and adversely affected.

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.

We cannot be certain that our services and information provided on our websites and mobile apps do not or will not infringe patents, copyrights or other intellectual property rights held by third parties. From time to time, we may be subject to legal proceedings and claims alleging infringement of patents, trademarks or copyrights, or misappropriation of creative ideas or formats, or other infringement of proprietary intellectual property rights.

We have applied to register in China the Chinese and English dual-language “SouFun” trademark as well as “SouFun” in English and “搜房” (“SouFun” in Chinese) individually, and have successfully registered such trademarks in some industry categories, but our applications for certain other industry categories conflict with existing registrations or applications for similar trademarks by another PRC company in such industry categories, which have resulted in litigations. In April 2014, the Higher People’s Court of Beijing Municipality reversed a lower court’s judgment in favor of us and ordered the PRC Trademark Review and Adjudication Board of SAIC to reconsider another PRC company’s trademark application for “SOFANG” that it had previously rejected. In April 2015, the Supreme People’s Court of the PRC accepted our application for retrial over the judgment of the Higher People’s Court of Beijing Municipality but ultimately denied our application. Nevertheless, in 2015, we obtained new trademarks “Fang.com” in English and “房天下” (“Fang Tian Xia” in Chinese) and began to market our services under these new brands in connection with the transformation of our business model. We therefore do not currently expect our business would be materially and adversely affected even if we lose the right to use the trademark relating to “SouFun” in certain limited industry categories.

Moreover, we have previously been involved in disputes arising from alleged infringement of third parties’ copyrights on our websites and mobile apps, such as the use of photos or articles to which we did not have the rights, which led to judgments against us. We could be subject to similar claims, suits or judgments in the future if we post information to which we do not have the rights. Any such claims, regardless of merits, may involve us in time-consuming and costly litigation or investigation and divert significant management and staff resources. If we are found to have violated the intellectual property rights of others, we may be enjoined from using such intellectual property and may also be ordered to pay fines or monetary damages. As a result, we would be required to enter into expensive royalty or licensing arrangements or to develop alternative technologies, business methods, content or other intellectual property. We expect that the likelihood of such claims may increase as the number of competitors in our markets grows and as related patents and trademarks are registered and copyrights are obtained by such competitors. In addition, as we have expanded, and may continue to expand, our business into new geographical markets, we may be exposed to such claims in jurisdictions other than China and the scope of intellectual property protection in these overseas jurisdictions may be different from or greater than that in China. The intellectual property laws in overseas jurisdictions may also impose more stringent compliance requirements and cause more potential damages or penalties than those in China. Such claims in overseas jurisdictions, if successful, could require us to pay significant compensatory and punitive damage awards as well as expose us to costly and time-consuming litigation or investigations, all of which could materially disrupt our business and have a material adverse effect on our growth and profitability.

We are exposed to potential liability for information on our websites and mobile apps and for products and services sold through our websites and mobile apps and we may incur significant costs and damage to our reputation as a result of defending against such potential liability.

We provide third-party content on our websites and mobile apps such as real estate listings, links to third-party websites, advertisements and content provided by customers and users of our community-oriented services. We could be exposed to liability with respect to such third-party information. 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 and mobile apps 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 controlled entities, as Internet advertising service providers, are obligated under PRC laws and regulations to monitor the advertising content shown on our websites and mobile apps 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 and mobile apps could be used as a platform for fraudulent transactions and third party products and services sold through our websites and mobile apps may be defective. The measures we take to guard against liability for third-party content, information, products and services 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.

Potential acquisitions and office, training facility and land purchases, which form part of our strategy, may disrupt our ability to manage our business effectively, including our ability to successfully integrate acquired businesses into our existing operations.

Potential acquisitions form part of our strategy to further expand and operate our business. Acquisitions and the subsequent integration of new companies or businesses will require significant attention from our management, in particular to ensure that the acquisition does not disrupt any existing collaborations, or affect our users' opinion and perception of our services and customer support. In addition, our management will need to ensure that the acquired 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, acquisitions 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 acquisitions; and
- potential loss of, or harm to, relationships with employees, customers and users as a result of the integration of new businesses.

In addition, in connection with our business expansion, we have acquired office space and training facilities as well as commercial land and may continue to do so in the future if suitable opportunities arise. For more details on our recent office, training facility and land acquisitions, see "Item 5.D. Operating and Financial Review and Prospects — A. Operating Results" and "Item 4. Information on the Company—Facilities" in this annual report. Acquisition of property has inherent risks, including the fluctuation of property value, which could potentially lead to potential asset write-off if the value of such properties were to substantially decrease.

If we fail to maintain an effective system of internal control over financial reporting, we may be unable to accurately report our financial results or prevent fraud, which could result in harm to our business, loss of investor confidence in our financial reporting and a lower trading price of our ADSs or notes.

Effective internal controls are necessary for us to provide accurate and timely financial reports and effectively prevent fraud. We discovered in the past, and may in the future discover, areas of our internal controls involving deficiencies, significant deficiencies or material weaknesses that have required or will require improvements in our procedures on the preparation, review, approval and disclosure of financial reports.

In the course of preparing and auditing our consolidated financial statements for the year ended December 31, 2017, we and our independent registered public accounting firm identified one material weakness in our internal control over financial reporting as of December 31, 2017. In accordance with U.S. GAAP and financial reporting requirements set forth by the SEC, a "material weakness" is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our company's annual or interim consolidated financial statements will not be prevented or detected on a timely basis. The material weakness identified is that, in relation to a significant legal contingency, we did not operate our controls effectively to timely identify and evaluate significant developments to ensure appropriate accounting is applied to the resolution of the contingency, including any settlements received subsequent to the balance sheet date. To remedy our identified material weakness subsequent to December 31, 2017, we plan to undertake steps to strengthen our internal control over financial reporting, including: (1) assessing the progress made on legal contingencies in a timely manner by formalizing a litigation inventory and tracking report on a quarterly basis prepared and reviewed by our internal legal group; (2) improving timely communication between accounting team and internal legal group to address impact on the consolidated financial statements as a result of latest developments, if any, on legal contingencies; and (3) establishing effective monitoring and oversight controls over the financial statement close process to ensure our controls over the analysis and accounting for material subsequent event transactions are operated as designed.

Our internal control over financial reporting will not prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud will be detected.

A lack of effective internal control over financial reporting in the future could result in the loss of investor confidence in the reliability of our financial statements and negatively impact the trading price of our ADSs. In addition, if we fail to maintain the adequacy of our internal controls, as such standards are modified, supplemented or amended from time to time or as necessary to correct deficiencies or weaknesses in our controls, we may not be able to provide accurate financial statements, which could cause us to fail to meet our reporting obligations or provide accurate financial statements, and cause investors to lose confidence in our reported financial information and have a negative effect on the trading price of our ADSs.

Certain of our leased property interests may be defective and we may be forced to relocate operations affected by such defects, which could cause significant disruption to our business.

As of December 31, 2017, we had leased properties in approximately 77 cities in China in addition to our principal executive offices in Beijing, China. A number of these leased properties, all of which were used as offices, contained defects in the leasehold interests. Such defects included the lack of proper title or right to lease and the landlords' failure to duly register the leases with the relevant PRC government authority. A number of lease agreements were not renewed timely.

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 under PRC laws, rules and regulations, and may also be subject to challenge by third parties. In addition, under PRC laws, rules and regulations, the failure to register the lease agreement will not affect its effectiveness between the tenant and the landlord, however, such lease agreement may be subject to challenge by and unenforceable against a third party who leases the same property from the landlord and has duly registered the lease with the competent PRC government authority. Furthermore, the landlord and the tenant may be subject to administrative fines for such failure to register the lease.

We have taken steps to renew lease agreements and 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 business may be interrupted and additional relocation costs may be incurred if we are required to relocate operations affected by such defects. Moreover, if our lease agreements are challenged by third parties, it could result in diversion of management attention and cause us to incur costs associated with defending such actions, even if such challenges are ultimately determined in our favor.

We have limited business insurance coverage in China.

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.

Certain of our loans may be declared immediately repayable.

Certain of our consolidated controlled entities obtained from a PRC commercial bank loans in the aggregated principal amount of approximately RMB269.0 million. According to loan agreement, if the borrowers fail to maintain certain financial indicators, the bank will be entitled to declare the loans immediately repayable. As of the date of this annual report, the bank has not indicated its intention for us to immediately repay such loans; however, we cannot assure you that the bank would not change its position and declare such loans immediately repayable in the future, which may adversely affect our liquidity position.

Risks related to our corporate structure

If the PRC government determines that the structure contracts that establish the structure for our business operations do not comply with applicable PRC laws, rules and regulations, we could be subject to severe penalties or be forced to restructure our ownership structure.

As we are a Cayman Islands company and our PRC subsidiaries and their branch companies in China are treated as foreign-invested enterprises under applicable PRC laws, we are subject to ownership limitations as well as special approval requirements on foreign investment. We used to operate under a tighter regulatory regime which was restrictive of foreign investment in advertising and Internet content distribution businesses, except for the further lifting up of value-added telecommunication services by foreign enterprises in China (Shanghai) Pilot Free Zone as otherwise provided. Under the current regulatory regime, Internet content distribution is permitted to operators with less than 50.0% foreign investment and advertising is permitted to all qualified operators. We may consider further optimizing our corporate structure in light of the evolving regulatory environment.

To comply with applicable PRC laws, rules and regulations, we conduct our operations in China primarily through our wholly-owned PRC subsidiaries and our consolidated controlled entities. Our wholly-owned PRC subsidiaries, our consolidated controlled entities (excluding their subsidiaries) and their respective shareholders have entered into a series of contractual arrangements, which consist of exclusive technical consultancy and service agreements, equity pledge agreements, operating agreements, shareholders' proxy agreements, loan agreements and exclusive call option agreements (collectively, the "Structure Contracts"). See "Item 7.B. Major Shareholders and Related Party Transactions—Related Party Transactions—Structure Contracts" of this annual report. As a result of these contractual arrangements, we exercise the ability to control the consolidated controlled entities through our power to direct the activities of consolidated controlled entities that most significantly impact their economic performance, and the obligation to absorb losses of or the right to all the residual benefits of the consolidated controlled entities that could potentially be significant to these entities. Accordingly, we consolidate their results in our financial statements. Our consolidated controlled entities hold the licenses and approvals that are essential to the operation of our Internet content distribution business. As certain agreements with our customers for Internet content distribution were entered into directly with our PRC subsidiaries and not our consolidated controlled entities, there can be no assurance that the PRC government will not deem our Internet content distribution to be in violation of applicable PRC laws, rules and regulations.

On July 13, 2006, MIIT publicly released the Notice on Strengthening the Administration of Foreign Investment in Operating Value-Added Telecommunications Business (the "MIIT Notice"), which reiterates certain provisions under China's Administrative Rules on Foreign-Invested Telecommunications Enterprises prohibiting, among others, the renting, transferring or sale of a telecommunications license to foreign investors in any form. Under the MIIT Notice, holders of valued-added telecommunications business operating licenses, or their shareholders, must also directly own the domain names and trademarks used by such license holders in their daily operations. To comply with this requirement under the MIIT Notice, we have assigned all registered trademarks, trademark applications and domain names relating to "SouFun," "Jia Tian Xia," "Fang.com" and "Fang Tian Xia" to the relevant majority-owned subsidiary or consolidated controlled entities in order to maintain their respective ICP licenses to operate as value-added telecommunication service providers. Due to a lack of interpretative materials from the authorities, we cannot assure you that MIIT will not consider our corporate structure and the contractual arrangements as a kind of foreign investment in telecommunication services, in which case we may be found in violation of the MIIT Notice.

In 2011, various media sources reported that the CSRC prepared a report proposing pre-approval by a competent central government authority of offshore listings by China-based companies with variable interest entity structures, such as ours, that operate in industry sectors subject to foreign investment restrictions. However, it is unclear whether the CSRC officially issued or submitted such a report to a higher level government authority or what any such report provides, or whether any new PRC laws or regulations relating to variable interest entity structures will be adopted or what they would provide.

Furthermore, in January 2015, MOFCOM published a draft bill of the Foreign Investment Law (the "Draft FIL") for public comment, suggesting a possible overhaul of the existing foreign investment laws in China. Among other proposed changes, the Draft FIL seeks to introduce new measures to regulate structure contracts. It is not clear, however, when the Draft FIL will become effective, what approach it will adopt and how it will impact the structure contracts through which we hold the ICP licenses that are critical to our operation.

If the past or current ownership structures, Structure Contracts and businesses of our company, our PRC subsidiaries and our consolidated controlled entities are found to be in violation of any existing or future PRC laws, rules or regulations, MIIT and other relevant PRC regulatory authorities would have broad discretion in dealing with such violations, including:

- revoking the business and operating licenses of our PRC subsidiaries or consolidated controlled entities, whose business and operating licenses are essential to the operation of our business;
- levying fines and/or confiscating our income or the income of our PRC subsidiaries and/or consolidated controlled entities;
- shutting down our servers or blocking our websites;
- discontinuing or restricting our operations or the operations of our PRC subsidiaries and/or consolidated controlled entities;
- imposing conditions or requirements with which we, our PRC subsidiaries and/or consolidated controlled entities may not be able to comply;

- requiring us, our PRC subsidiaries and/or consolidated controlled entities to restructure the relevant ownership structure, operations or contractual arrangements; and
- taking other regulatory or enforcement actions that could be harmful to our business.

We cannot assure you that the relevant PRC regulatory authorities will not require that we amend our Structure Contracts to comply with the MIIT Notice or that we can restructure our ownership structure without material disruption to our business. In addition, new PRC laws, rules and regulations may be introduced to impose additional requirements that may be applicable to our corporate structure and contractual arrangements. The imposition of any of these penalties and the effect of any new PRC laws, rules and regulations applicable to our corporate structure and contractual arrangements could materially disrupt our ability to conduct our business and have a material adverse effect on our financial condition and results of operations.

We cannot assure you that we will be able to enforce the Structure Contracts. Although we believe we are in compliance with current PRC regulations, we cannot assure you that the PRC government would agree that these contractual arrangements comply with PRC licensing, registration or other regulatory requirements, with existing policies or with requirements or policies that may be adopted in the future. PRC laws and regulations governing the validity of these contractual arrangements are open to varying interpretations and the relevant government authorities have broad discretion in interpreting these laws and regulations.

Substantial uncertainties exist with respect to the adoption of new or revised PRC laws relating to our corporate structure, corporate governance and business operations.

In January 2015, MOFCOM published the Draft FIL, together with an accompanying explanatory note, for public comments until February 17, 2015, suggesting a possible overhaul of 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 FIL 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. As of the date of this annual report, MOFCOM had completed solicitation of comments from the public on the Draft FIL, but substantial uncertainties still exist with respect to its enactment timetable, interpretation and implementation. The Draft FIL, if enacted as proposed, may materially impact the viability of our current corporate structure, corporate governance and business operations in many aspects.

Among other changes, the Draft FIL expands the definition of foreign investment and introduces the principle of “actual control” in determining whether an investment is considered a foreign investment or domestic investment. The Draft FIL specifically provides that an entity established in China but “controlled” by foreign investors will be treated as a foreign investor, whereas an entity set up in a foreign jurisdiction but “controlled” by PRC entities and/or citizens would nonetheless be treated as PRC investors, provided that the entity should obtain such determination upon market entry clearance by the competent foreign investment authority. Our controlling shareholders, Media Partner and Next Decade, are owned by two irrevocable discretionary family trusts established by Mr. Mo, a PRC citizen; however, until the new PRC laws are finalized, we do not know if our company would be considered as ultimately controlled by PRC investor(s) or if the provisions for control by PRC investors will be adopted. The Draft FIL has not taken a position on what actions will be taken with respect to the existing companies with structure contracts, whether or not these companies are controlled by PRC investors. If the enacted version of the Foreign Investment Law mandates further actions, such as the MOFCOM market entry clearance or certain restructuring of corporate structure and operations, to be completed by companies with existing structure contracts like us, we may 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 FIL has no legal effect and it is unclear whether and how the legislative progress will proceed. However, if enacted as proposed, it may materially impact our corporate governance practice and increase our compliance costs. For instance, the Draft FIL includes stringent ad hoc and periodic information reporting requirements on foreign investors and the applicable foreign-invested enterprises. Aside from investment implementation reports and investment amendment reports 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.

We may lose the ability to utilize assets held by our consolidated controlled entities that are important to the operation of our business if any of these entities goes bankrupt or becomes subject to a dissolution or liquidation proceeding.

Our wholly-owned PRC subsidiaries are considered foreign-invested enterprises in China and are, therefore, not permitted under PRC law to hold the ICP licenses and to operate the online advertising businesses that are critical to our operations. As a result, our consolidated controlled entities are the holders of the ICP licenses required for operating our websites and our advertising business in China. We do not have any direct or indirect shareholding interests in these consolidated controlled entities. They are instead held directly or indirectly by Mr. Mo, our founder, executive chairman and chief executive officer, and Richard Jiangong Dai (“Mr. Dai”), our former director and former chief executive officer. Mr. Dai is a nephew of Mr. Mo. Both Mr. Mo and Mr. Dai are PRC citizens. Through the Structure Contracts, we exercise management, financial and voting control over these consolidated controlled entities through our rights to all the residual benefits of the consolidated controlled entities and our obligation to fund losses of the consolidated controlled entities and also have a contractual right, to the extent permitted by PRC laws, rules and regulations, to acquire the equity interests in these entities. Consequently, if any of these consolidated controlled entities goes bankrupt and all or part of its assets become subject to liens or rights of third-party creditors, we may be unable to continue some or all of our business activities, which could materially and adversely affect our business, financial condition and results of operations. If any of our consolidated controlled entities undergoes a voluntary or involuntary liquidation proceeding, the shareholders or unrelated third-party creditors may claim rights to some or all of these assets, thereby hindering our ability to operate our business, which could materially and adversely affect our business, financial condition and results of operations.

Contractual or other arrangements among our affiliates may be subject to scrutiny by PRC tax authorities, and a finding that we or our affiliates owe additional taxes could substantially reduce our profitability and the value of your investment.

As a result of the Structure Contracts, we are entitled to substantially all of the economic benefits of ownership of the consolidated controlled entities and also bear substantially all of the economic risks associated with consolidated controlled entities. If the PRC tax authorities determine that the economic terms, including pricing, of our arrangements with our consolidated controlled entities were not determined on an arm’s length basis, we could be subject to significant additional tax liabilities. In particular, the PRC tax authorities may perform a transfer pricing adjustment, which could result in a reduction, for PRC tax purposes, of deductions recorded by our consolidated controlled entities. Such a reduction could increase the tax liabilities of our consolidated controlled entities without reducing the tax liabilities of our PRC subsidiaries. This increased tax liability could further result in late payment fees and other penalties to our consolidated controlled entities for underpaid taxes. Any of these events could materially reduce our net income.

Contractual arrangements, including voting proxies, with our consolidated controlled entities for our Internet content distribution and marketing businesses may not be as effective in providing operational control as direct or indirect ownership.

Since the applicable PRC laws, rules and regulations restrict foreign ownership in the Internet content distribution and marketing businesses, we conduct our Internet content distribution and advertising businesses and derive related revenues through the Structure Contracts with our consolidated controlled entities. As we have no direct or indirect ownership interest in our consolidated controlled entities, these Structure Contracts, including the voting proxies granted to us, may not be as effective in providing us with control over these companies as direct or indirect ownership. If we were the controlling shareholders of these companies with direct or indirect ownership, we would be able to exercise our rights as shareholders to effect changes in the board of directors, which in turn could effect change, subject to any applicable fiduciary obligations, at the management level. However, if any of our consolidated controlled entities or their shareholders fail to perform their obligations under these contractual arrangements, or if they were otherwise to act in bad faith towards us, we may be forced to (1) incur substantial costs and resources to enforce such arrangements, including the voting proxies, and (2) rely on legal remedies available under PRC law, including exercising our call option right over the equity interests in our consolidated controlled entities, seeking specific performance or injunctive relief, and claiming monetary damages.

Furthermore, pursuant to the equity interest pledge agreements between certain of our PRC subsidiaries and the individual shareholders of our consolidated controlled entities, each individual shareholder of our consolidated controlled entity agrees to pledge his equity interests in the consolidated controlled entities to our subsidiaries to secure the relevant consolidated controlled entities’ performance of their obligations under the exclusive technical consultancy and service agreements of the Structured Contracts. The equity interest pledges of shareholders of consolidated controlled entities under these equity pledge agreements have been registered with the relevant local branch of SAIC. The equity interest pledge agreements with the consolidated controlled entities’ individual shareholders provide that the pledged equity interest shall constitute security for consulting and service fees under the exclusive technical consultancy and service agreements. The scope of pledge is not limited by the amount of the registered capital of that consolidated controlled entity. However, it is possible that a PRC court may 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 interest pledge agreements in excess of the amount listed on the equity pledge registration forms could be determined by the PRC court as unsecured debt, which takes last priority among creditors. Such a decision could materially and adversely affect our liquidity and our ability to fund and expand our business.

In anticipation of our originally proposed acquisition of a controlling stake in Chongqing Wanli New Energy Co., Ltd., a PRC company listed on the Shanghai Stock Exchange (stock code: 600847) (“Wanli”) and the sale of a portion of our equity interest in five wholly-owned subsidiaries that operate as our service platforms for online advertising business to Wanli (which was terminated in February 2017), in December 2015, we underwent an internal restructuring, whereby we terminated all of our previous structure contracts and caused Beijing Zhong Zhi Shi Zheng and Jia Tian Xia Network, our wholly-owned PRC subsidiaries, to enter into the current Structure Contracts with our consolidated controlled entities, with terms and conditions substantially similar to those of our previous structure contracts. See “Item 7.B. Major Shareholders and Related Party Transactions—Related Party Transactions—Structure Contracts” of this annual report. In February 2017, we terminated the transaction with Wanli in light of substantial regulatory uncertainties in China. Nevertheless, we do not plan to recover the original Structure Contracts before the internal restructuring. We believe that our contractual arrangements with our consolidated controlled entities for our Internet content distribution and marketing businesses are not materially affected by our internal restructuring. We cannot assure you, however, that our current Structure Contracts are as effective as the previous ones in terms of controlling our Internet content distribution and marketing businesses, nor can we assure you that these contractual arrangements will not be further modified. Any modification could potentially adversely affect our control, or result in our loss of control, over the Internet content distribution and marketing businesses. In the event that we are unable to enforce these contractual arrangements, or if we experience significant delays or other obstacles in the process of enforcing these contractual arrangements, our business, financial condition and results of operations could be materially and adversely affected.

Our business may suffer if we fail to carry out our business arrangements related to online video broadcasting related business with certain consolidated controlled entities of our company.

Beijing Technology, which holds licenses of online video recording and broadcasting, entered into a cooperation agreement with certain of our wholly-owned subsidiaries, under which Beijing Technology is responsible for the operation of online video broadcasting, while those subsidiaries are responsible for relevant technical support. During its possession of the domain name “fang.com,” Beijing Technology published online videos by embedding videos on webpages or placing video links on “fang.com.” After transferring the domain name “fang.com” to another Fang subsidiary in April 2016, Beijing Technology has ceased to embed videos on “fang.com” and will conduct its online video broadcasting business only by placing video links through “fang.com.”

Although such business cooperation agreement does not violate current PRC laws and regulations regarding online broadcasting and recording, we cannot assure you that due to any change of laws and regulatory policies, the abovementioned business cooperation agreement will not be deemed void, revocable or unenforceable under then applicable PRC laws amended from time to time or by regulatory authorities in the future. Should any of the above occur, the relevant business of the relevant subsidiaries will be impaired, which would have a material adverse effect on our business, financial condition and results of operations.

Moreover, licenses of online video recording and broadcasting, held by Beijing Technology, expired on February 13, 2018. Beijing Technology has applied for a renewal, which is currently awaiting approval from the relevant authorities. Under the applicable PRC laws, rules and regulations, the failure to maintain licenses of online video recording and broadcasting may subject the entity to various penalties, including confiscation of revenues, imposition of fines and/or restrictions on the entity conducting such activities’ business operations, or the discontinuation of their operations.

The shareholders of our consolidated controlled 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 operate through a number of consolidated controlled entities in China. Messrs. Mo and Dai together hold 100.0% of the equity interest in these consolidated controlled entities. The interests of Messrs. Mo and Dai as the controlling shareholders of the consolidated controlled entities may differ from the interests of our company as a whole, as what is in the best interests of our consolidated controlled entities may not be in the best interests of us and our other shareholders. We cannot assure you that when conflicts of interest arise, Messrs. Mo and Dai will act in the best interests of our company or that conflicts of interest will be resolved in our favor. In addition, Messrs. Mo and Dai may breach or cause our consolidated controlled entities and their respective subsidiaries to breach or refuse to renew the existing contractual arrangements with us. We rely on Messrs. Mo and Dai to comply with the laws of China, which protect contracts and provide that directors and executive officers owe a duty of loyalty to our company and require them to avoid conflicts of interest and not to take advantage of their positions for personal gains. We also rely on Mr. Mo to abide by the laws of the Cayman Islands, which provide that directors have a duty of care and a duty of loyalty to act honestly in good faith with a view to our best interests. However, the legal frameworks of China and the Cayman Islands do not provide guidance on resolving conflicts in the event of a conflict between the laws of China and the Cayman Islands regarding which corporate governance regime controls. If we cannot resolve any conflicts of interest or disputes between us and Messrs. Mo and Dai, we would have to rely on legal proceedings, which could result in disruption of our business and subject us to substantial uncertainty as to the outcome of any such legal proceedings.

In addition, Mr. Dai continued to be a nominee shareholder of our consolidated controlled entities following his resignation from our board of directors in February 2016. We did not exercise, nor did we designate any third party to exercise, the call option under the Structure Contracts to acquire from Mr. Dai the equity interests he holds in our consolidated controlled entities. Although the relevant Structure Contracts to which Mr. Dai is a party remain to be effective and binding, we cannot assure you that we will be able to fully exercise our contractual rights against Mr. Dai (e.g., to request him to sell his equity interests in our consolidated controlled entities to us when permitted by applicable PRC laws). Nor can we assure you that Mr. Dai will not act against the best interests of us and our other shareholders in the future since he no longer owes any fiduciary duties to our company. Should we encounter any difficulties in exercising our contractual rights under the Structure Contracts against Mr. Dai to retain our control over the consolidated controlled entities, our business, financial condition and results of operations will be materially and adversely affected.

We are controlled by our significant shareholders and their affiliated entities, whose interests may differ from our other shareholders.

As of March 31, 2018, Mr. Mo may be deemed to have voting and dispositive power with respect to: (1) 11,355,645 Class B ordinary shares owned by Media Partner Technology Limited (“Media Partner”), with respect to Mr. Mo and his family members, (2) 1,123,955 Class A ordinary shares and 10,230,645 Class B ordinary shares owned by Next Decade Investments Limited (“Next Decade”), with respect to Mr. Mo and his family members, (3) 3,418,803 Class A ordinary shares owned by Safari Group Holdings Limited (“Safari”), (4) 5,359,658 Class A ordinary shares owned by IDG Alternative Global Limited (“IDG Alternative”), and (5) 926,461 Class A ordinary shares owned by Karistone Limited, collectively presenting approximately 36.9% of our outstanding share capital and approximately 78.9% of our voting power under our dual-class ordinary share structure. The shares in Media Partner and Next Decade are held in irrevocable discretionary trusts, for which Mr. Mo acts as a protector. Media Partner and Next Decade could exert substantial influence over the outcome of any corporate transaction or other matters submitted to the shareholders for approval, including mergers, consolidations, the sale of all or substantially all of our assets, election of directors and other significant corporate actions. This concentration of ownership may also discourage, delay or prevent a change in control of our company, which could deprive our shareholders of an opportunity to receive a premium for their shares as part of a sale of our company and might reduce the price of our ADSs or notes. These actions may be taken even if they are opposed by our other shareholders, including the investors in the ADSs.

The continuing cooperation of our significant shareholders on an on-going basis, including Media Partner and Next Decade, is important to our businesses. Without their consent or cooperation, we could be prevented from entering into transactions or conducting business that could be beneficial to us. We cannot assure you, however, that the interests of our significant shareholders would not differ from the interests of our other shareholders, including investors in the ADSs.

Risks related to doing business in China

China’s economic, political and social conditions, as well as government policies, could have a material adverse effect on our business, financial condition and results of operations.

Our business and operations are primarily conducted in China. Accordingly, our financial condition and results of operations have been, and are expected to continue to be, affected by the economic, political and social developments in relation to the Internet, online marketing and real estate industries in China. A slowdown of economic growth in China could reduce the sale of real estate and related products and services, which in turn could materially and adversely affect our business, financial condition and results of operations.

The PRC economy differs from the economies of most developed countries in many respects, including: a higher level of government involvement; the on-going development of a market-oriented economy; a rapid growth rate; a higher level of control over foreign exchange; and a less efficient allocation of resources.

While the PRC economy has experienced significant growth since the late 1970s, growth has been uneven, both geographically and among various sectors of the economy. Growth rates in China have lowered in recent years. The PRC government has implemented various measures to encourage economic growth and guide the allocation of resources. These measures are intended to benefit the overall PRC economy, but may also have a negative effect on us. For example, our business, financial condition and results of operations could be adversely affected by PRC government control over capital investments or changes in tax regulations that are applicable to us.

The PRC economy has been transitioning from a centrally-planned economy to a more market-oriented economy. Although the PRC government has implemented measures since the late 1970s which emphasize the utilization of market forces for economic reform, the PRC government continues to play a significant role in regulating industry development by imposing industrial policies. The PRC government also exercises significant control over China's economic growth through the allocation of resources, controlling payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies.

According to the Guiding Opinions on the Pilot Operation of Microfinance Companies (the "Guiding Opinions") jointly issued by the China Banking Regulatory Commission and the PBOC on May 4, 2008, microfinance companies are limited liability companies or joint stock companies established with the capital contribution from natural persons, legal persons and other organizations, which do not accept public deposits and engage in the microfinance business. To set up a microfinance company, an applicant shall submit a formal application to the competent administrative departments at the provincial level. Upon approval, the applicant shall apply to the local branch of the SAIC to obtain a business license for the microfinance company. In addition, the applicant shall complete certain filings with the local police department, the local office of the China Banking Regulatory Commission and the local branch of the PBOC.

According to the Guiding Opinions, a provincial government may launch pilot programs for microfinance companies within prefectural regions of the province only after it designates a department (finance office or other relevant institutions) to be in charge of supervision and administration of microfinance companies and is willing to be responsible for risk management and disposals with respect to microfinance companies. Consequently, microfinance companies are primarily regulated locally by provincial governments under rules and regulations promulgated by the provincial governments.

In November 2009, the provincial government of the Guangxi Zhuang Autonomous Region issued the Management Measures of Microfinance Companies in Guangxi Zhuang Autonomous Region. In 2014, We obtained approvals to engage in the microfinancing business from government authorities of Beihai city, Guangxi Zhuang Autonomous Region.

Pursuant to the Management Measures of Microfinance Companies in Guangxi Zhuang Autonomous Region, Beihai Tian Xia Dai Microfinance Co., Ltd. ("Beihai Tian Xia Dai Microfinance") with microfinancing approvals can not conduct microfinancing business outside Beihai city. However, Beihai Tian Xia Dai Microfinance has provided loans outside Beihai city. Beihai Tian Xia Dai Microfinance may face the risk of being rectified by relevant authorities.

The discontinuation of any of the preferential tax treatments currently available to us in China could materially and adversely affect our financial condition and results of operations

In March 2007, the National People's Congress of China enacted the PRC Enterprise Income Tax Law (the "New EIT Law"), which became effective on January 1, 2008 and was amended in February 2017. In April 2008, the relevant PRC governmental authorities issued the Administrative Measures for Certification of High and New Technology Enterprises which was amended in January 2016. "High and new technology enterprises" would be entitled to a statutory tax rate of 15.0%. Currently, seven of our PRC subsidiaries or consolidated controlled entities are qualified as "high and new technology enterprises." We cannot assure you that our PRC subsidiaries or consolidated controlled entities will continue to be entitled to preferential tax rates as qualified "high and new technology enterprises" under the New EIT Law. We also cannot assure you that the tax authorities will not, in the future, discontinue any of our preferential tax treatments, potentially with retroactive effect. In the event that preferential tax treatment for any of our subsidiaries or consolidated controlled entities is discontinued, the affected entity will become subject to a 25.0% standard enterprise income tax rate, which would increase our income tax expenses and could materially reduce our net income and profitability. See also "Item 5.A. Operating and Financial Review and Prospects—Operating Results—Components of our Results of Operations—Taxation—China" of this annual report.

We may be treated as a resident enterprise for PRC tax purposes under the New EIT Law and therefore be subject to PRC taxation on our worldwide income.

We are incorporated under the laws of the Cayman Islands. Under the New EIT Law and its implementation rules, an enterprise incorporated in a foreign country or region may be classified as either a “non-resident enterprise” or a “resident enterprise.” If any enterprise incorporated in a foreign country or region has its “de facto management bodies” located within the PRC territory, such enterprise will be considered a PRC tax resident enterprise and thus will normally be subject to enterprise income tax at the rate of 25.0% on its worldwide income. The relevant implementing rules provide that “de facto management bodies” means the bodies which exercise substantial and overall management and control over the manufacturing and business operations, personnel, accounting, properties and other factors of an enterprise. In April 2009, the SAT issued the Notice Regarding the Determination of Chinese-Controlled Offshore-Incorporated Enterprises as PRC Tax Resident Enterprises on the Basis of De Facto Management Bodies (“Circular 82”), which sets forth certain specific criteria for determining whether the “de facto management body” of a Chinese-controlled offshore-incorporated enterprise is located in China. However, Circular 82 only applies to offshore enterprises controlled by PRC enterprises and not those controlled by PRC individuals or foreigners in China, such as our company. See “Item 10.D. Additional Information—Exchange Controls—Regulations relating to Foreign Exchange, Taxation and Dividend Distribution—Taxation and Dividend Distribution” of this annual report. Substantially all of the members of our management are currently located in China and we expect them to continue to be located in China. Due to the lack of clear guidance on the criteria pursuant to which the PRC tax authorities will determine our tax residency under the New EIT Law, it remains unclear whether the PRC tax authorities will treat us as a PRC resident enterprise. As a result, our PRC legal counsel is unable to express an opinion as to the likelihood that we will be subject to the tax applicable to resident enterprises or non-resident enterprises under the New EIT Law. If we are deemed to be a PRC tax resident enterprise, we will be subject to an enterprise income tax rate of 25.0% on our worldwide income, which would have an impact on our effective tax rate and an adverse effect on our net income and results of operations. The New EIT Law provides that dividend income between qualified resident enterprises is exempt income, which the implementing rules have clarified to mean a dividend derived by a resident enterprise on an equity interest it directly owns in another resident enterprise. It is possible, therefore, that dividends we receive through our offshore subsidiaries from our PRC subsidiaries, would be exempt income under the New EIT Law and its implementing rules if our offshore subsidiaries are deemed to be a “resident enterprise.” If we are deemed to be a PRC tax resident enterprise, we would then be obliged to withhold PRC withholding income tax on the gross amount of dividends we pay to shareholders who are non-PRC tax residents. The withholding income tax rate is 10.0% for non-resident enterprises and 20.0% for non-resident individuals, unless otherwise provided under the applicable double tax treaties between China and the governments of other jurisdictions.

We rely primarily on dividends and other distributions on equity paid by our subsidiaries, and any limitation on the ability of our subsidiaries to make payments to us could have a material adverse effect on our ability to conduct our business as well as our liquidity.

As a holding company, we rely primarily on dividends and other distributions on equity paid by our subsidiaries for our cash and financing requirements, which include funds necessary to pay dividends and other cash distributions to our shareholders, service any debt we may incur and to pay our operating expenses. If our subsidiaries incur debt in the future, the instruments governing the debt may restrict their ability to pay dividends or make other distributions to us.

Our subsidiaries are primarily entities incorporated and established in China and therefore, are subject to certain limitations with respect to dividend payments. PRC regulations currently allow payment of dividends only out of accumulated profits determined in accordance with accounting standards and regulations in China. Each year, our subsidiaries in China and our consolidated controlled entities are required to allocate a portion of their after-tax profits to their respective reserve funds, until the reserves reach 50.0% of their respective registered capital. Allocations to these reserves and funds can only be used for specific purposes and are not transferable to us in the form of loans, advances or cash dividends. Such restrictions on the ability of our subsidiaries and consolidated controlled entities to transfer funds to us could adversely limit our ability to grow, pay dividends, make investments or acquisitions that could benefit our businesses or otherwise fund and conduct our businesses.

Under the relevant PRC tax law applicable to us prior to January 1, 2008, dividend payments to foreign investors made by foreign-invested enterprises were exempted from PRC withholding tax. However, under the New EIT Law and its implementing rules, non-resident enterprises without an establishment in China, or whose income has no connection with their institutions and establishment inside China, are subject to withholding tax at the rate of 10.0% with respect to their PRC-sourced dividend income, subject to applicable tax agreements or treaties between the PRC and other tax jurisdictions. Similarly, any gains realized on the transfer of shares by such investors are also subject to a 10.0% PRC income tax if such gains are regarded as income from sources within China.

According to the Mainland and Hong Kong Special Administrative Region Arrangement on the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income (the “Avoidance of Double Taxation Arrangement”), dividends derived by a Hong Kong resident enterprise from a PRC resident enterprise are subject to withholding tax at the rate of 5.0%, provided that such Hong Kong resident enterprise directly owns at least 25.0% of the equity interest in the PRC resident enterprise. However, under the New EIT Law and its implementation rules, as well as Circular No. 9 issued by SAT in February 2018 (“Circular 9”), dividends from our PRC subsidiaries paid to us through our Hong Kong subsidiaries may be subject to withholding tax at a rate of 10.0% if our Hong Kong subsidiaries cannot be considered as a “beneficial owner” or the main purpose test clause of Avoidance of Double Taxation Arrangement may apply to us. In June 2012, SAT further promulgated the Announcement on Determining the Beneficial Owners in Tax Agreement (“Circular 30”), which provides that the tax authorities shall make the decision based on a comprehensive consideration of all determining factors provided in Circular 601 rather than the status of a single determining factor.

We hold equity interests in several of our major PRC subsidiaries indirectly through subsidiaries incorporated in Hong Kong. Neither we nor our PRC legal counsel is certain as to whether it is more likely than not that PRC tax authorities would require or permit our Hong Kong-incorporated subsidiaries to be treated as PRC resident enterprises. To the extent that such Hong Kong-incorporated subsidiaries are each considered a “non-resident enterprise” under the Avoidance of Double Taxation Arrangement, dividends derived by such Hong Kong-incorporated subsidiaries from our PRC subsidiaries may be subject to a maximum withholding tax rate of 10.0%. See “Item 10.E. Additional Information—Taxation—Regulation of Foreign Exchange, Taxation and Dividend Distribution—Taxation and Dividend Distribution” of this annual report.

The discontinuation of the previously available exemption from withholding tax as a result of the New EIT Law and its implementing rules have and will increase our income tax expenses and reduce our net income, and may materially reduce our profitability.

PRC regulations on loans to PRC entities by offshore holding companies may affect our ability to capitalize or otherwise fund our PRC operations.

On August 29, 2008, SAFE promulgated the Circular on the Relevant Operating Issues Concerning the Improvement of the Administration of the Payment and Settlement of Foreign Currency Capital of Foreign Invested Enterprises (“SAFE Circular 142”), regulating the conversion by a foreign-invested enterprise of foreign currency registered capital into RMB by restricting how the converted RMB may be used. SAFE Circular 142 provides that the RMB capital converted from foreign currency registered capital of a foreign-invested enterprise may only be used for purposes within the business scope approved by the applicable governmental authority and may not be used for equity investments within China. In addition, SAFE strengthened its oversight of the flow and use of the RMB capital converted from foreign currency registered capital of a foreign-invested company. The use of such RMB capital may not be altered without SAFE approval, and such RMB capital may not in any case be used to repay RMB loans if the proceeds of such loans have not been used. Violations of SAFE Circular 142 could result in severe monetary or other penalties.

On March 30, 2015, SAFE promulgated the Circular on the Reform of Administration of the Payment and Settlement of Foreign Currency Capital of Foreign Invested Enterprises (“SAFE Circular 19”), which became effective on June 1, 2015. SAFE Circular 19 abolishes the SAFE Circular 142, providing that the RMB capital converted from foreign currency registered capital of a foreign-invested enterprise shall be used for purposes within its approved business scope, and allows a foreign-invested enterprise to use the RMB capital converted from its foreign currency registered capital for equity investments within China. However, such converted RMB capital still cannot be used to repay RMB loans between enterprises under SAFE Circular 19. However, the Circular of the State Administration of Foreign Exchange on Reforming and Regulating Policies on the Control over Foreign Exchange Settlement of Capital Accounts (“SAFE Circular 16”) implemented in June 2016 removes the prohibition of using the RMB capital converted from foreign currency registered capital to repay RMB loans between enterprises.

In light of the various requirements imposed by PRC regulations on loans to PRC entities by offshore holding companies, we may not be able to obtain the necessary government approvals with respect to future loans by us to our wholly-owned subsidiaries or consolidated controlled entities or with respect to future capital contributions by us to our PRC subsidiaries. If we fail to complete such registrations or obtain such approvals, our ability to capitalize or otherwise fund our PRC operations may be negatively affected, which could adversely affect our liquidity and our ability to fund and expand our business.

We may be subject to fines and legal or administrative sanctions in connection with certain historical intra-group funding transactions.

We have occasionally engaged in intra-group funding transactions, including dividend distributions from our consolidated controlled entities and payment advances made by one subsidiary on behalf of another. These transactions are typically deemed as non-interest bearing loans and receivables from the relevant “debtors.”

Pursuant to the General Lending Code implemented in August 1996 by the PBOC, the central bank of China, commercial lending in China must be made by or through a PRC-qualified financial institution as defined under the General Lending Code. As none of the payors in our intra-group transactions is or was at the relevant time a PRC qualified financial institution as defined under the General Lending Code, the PBOC may impose a fine for non-compliance on each of the payors in an amount equal to one to five times the value of any income received from its non-compliance, and the payors may be required to terminate such loans. On August 6, 2015, the Supreme People's Court issued the Provisions of the Supreme People's Court on Several Issues concerning the Application of Law in the Trial of Private Lending Cases (the “Provisions”), which provide that if the purpose of a lending contract concluded between two enterprises is for their business operation, and the lending contract does not contain the circumstances as stipulated in Article 52 of the PRC Contract Law and Article 14 of the Provisions, i.e., those that will result in contracts being null and void, the people's court shall consider such lending contract to be effective. As the General Lending Code has not been repealed and the Provisions were issued by the Supreme People’s Court as guidance for courts’ trial in private lending cases, it remains uncertain how the General Lending Code will be interpreted and implemented. If the PBOC and/or other governmental authorities decide to apply the General Lending Code and thereby instruct the payors to terminate such transactions, we have to fully repay the funds advanced in such transactions.

Moreover, pursuant to the PRC Foreign Currency Administration Regulations promulgated by the State Council in January 1996, and amended in August 2008, a PRC entity is required to apply for SAFE approval prior to extending commercial loans to offshore entities such as our company. As there is no specific definition of “commercial loans” under the Foreign Currency Administration Regulations and PRC governmental authorities have not issued any implementation rules with respect to the provision of commercial loans to offshore entities, it is not clear whether such provision will be applied to the non-interest bearing loans described above. Under the Foreign Currency Administration Regulations, an entity may be required to correct the violation and be subject to a warning and/or a fine for the violation of the foreign registration administrative regulations. If SAFE determines that the PRC Foreign Currency Administration Regulations do apply to us, it may require us to register the deemed overseas loans and rectify any prior non-compliance by properly obtaining SAFE approval. SAFE may also impose a warning and/or fine based on the PRC Foreign Currency Administration Regulations. We cannot assure you that we will be able to complete the necessary registration and filing procedures required by the PRC Foreign Currency Administration Regulations. In addition, it is not clear whether SAFE may consider the making of payments in Renminbi which should have been made in foreign currency to be foreign currency arbitrage, which may be deemed a violation and may subject a violator to warnings, penalties or other sanctions. Due to a general uncertainty over the interpretation and implementation of the PRC Foreign Currency Administration Regulations as well as the broad enforcement discretion granted to SAFE, we cannot assure you that we will not be subject to such warnings, penalties or other administrative penalties resulting from our intra-group transactions that may be deemed as overseas loans.

According to the New EIT Law, loan arrangements between related parties without interest are not considered arms-length transactions. Therefore, the PRC taxation authorities could impose enterprise income and business taxes on the payors for the deemed interest income that would have been derived from our intra-group transactions. The deemed interest rate would be determined by reference to the lending rate over the relevant period published by the PBOC. We cannot assure you that we will not be subject to fines, or legal or administrative sanctions as a result of non-compliance with the General Lending Code and the Foreign Currency Administration Regulations. Further, we cannot assure you that the PRC taxation authorities will not impose enterprise income and business taxes on the payors for any deemed interest income with respect to our intra-group transactions. Because the applicable PRC laws, rules and regulations do not provide clear definitions for several key terms and because the relevant PRC regulatory authorities have significant discretion on the interpretation of such matters, we cannot predict the likelihood that the risks described here will materialize.

The PRC legal system embodies uncertainties, which could limit the legal protections available to you and us.

In 1979, the PRC government began to promulgate a comprehensive system of laws and regulations governing economic matters in general. The overall effect of such legislation has significantly enhanced the protections afforded to various forms of foreign investment in China. Our PRC operating subsidiaries are subject to laws and regulations applicable to foreign-invested enterprises in China. In particular, they are subject to PRC laws, rules and regulations governing foreign companies' ownership and operation of Internet content distribution and advertising businesses as well as of the real estate and microfinancing sectors. Such laws and regulations are subject to change, and their interpretation and enforcement involve uncertainties, which could limit the legal protections available to us and our investors. In addition, we cannot predict the effect of future developments in the PRC legal system, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement of such laws, or the preemption of local regulations by PRC laws, rules and regulations.

Moreover, China has a civil law system based on written statutes, which, unlike common law systems, is a system in which decided judicial cases have little precedential value. Furthermore, interpretation of statutes and regulations may be subject to government policies reflecting domestic political changes. The relative inexperience of China's judiciary in many cases creates additional uncertainty as to the outcome of litigation. In addition, enforcement of existing laws or contracts based on existing laws may be uncertain and sporadic, and it may be difficult to obtain swift and equitable enforcement within China. All such uncertainties could materially and adversely affect our business, financial condition and results of operations.

Government control of currency conversion may limit our ability to utilize our revenues effectively.

Substantially all of our revenues and operating expenses are denominated in Renminbi. Under applicable PRC law, the Renminbi is freely convertible to foreign currencies with respect to "current account" transactions, but not with respect to "capital account" transactions. Current account transactions include ordinary course import or export transactions, payments for services rendered and payments of license fees, royalties, interest on loans and dividends. Capital account transactions include cross-border investments and repayments of the principal of loans.

Accordingly, our PRC subsidiaries currently may purchase foreign currencies for settlement of current account transactions, including payment of dividends to us, without prior SAFE approval by complying with certain procedural requirements. However, we cannot assure you that the relevant PRC governmental authorities will not limit or eliminate the ability of our PRC subsidiaries to purchase and retain foreign currencies in the future. Foreign exchange transactions under the capital account are still subject to limitations and require approvals from or registration with relevant government authorities. This could affect our PRC subsidiaries' ability to obtain debt or equity financing from outside China, including by means of loans or capital contributions from us.

Since substantially all of our revenues are denominated in Renminbi, including fees and payments from our PRC consolidated controlled entities pursuant to the Structure Contracts, existing and future restrictions on currency exchange may limit our ability to utilize revenues generated in Renminbi to fund expenditures denominated in foreign currencies, including any dividends that our PRC subsidiaries may pay to us in the future.

If SAFE determines that its foreign exchange regulations apply to us and our shareholding structure, a failure by our shareholders who are PRC citizens or residents to comply with these regulations may restrict our ability to distribute profits, restrict our overseas and cross-border investment activities or subject us to liability under PRC laws, which may materially and adversely affect our business, financial position and results of operations.

Pursuant to the Circular on Relevant Issues concerning Foreign Exchange Administration of Overseas Investment and Financing and Return Investments Conducted by Domestic Residents through Overseas Special Purpose Vehicle (“Circular 37”), which was promulgated by SAFE and became effective on July 4, 2014, (1) a PRC resident must register with the local SAFE branch before such PRC resident contributes assets or equity interests in an overseas special purpose vehicle (“Overseas SPV”), that is directly established or controlled by the PRC resident for the purpose of conducting investment or financing, and (2) following the initial registration, the PRC resident is also required to register with the local SAFE branch for any major change, in respect of the Overseas SPV, including, among other things, a change in the PRC-resident shareholder of the Overseas SPV, name of the Overseas SPV, term of operation, or any increase or reduction of the registered capital of the Overseas SPV, share transfer or swap, and merger or division. Pursuant to Circular 37, failure to comply with these registration procedures may result in penalties, including the imposition of fines, criminal liability, and restrictions on the ability of the PRC subsidiary of the Overseas SPV to distribute dividends to its overseas parent. Circular 37 replaced a former SAFE circular commonly referred to as Circular 75 which became effective on November 1, 2005 and the relevant implementation notice. SAFE promulgated the Notice on Further Simplifying and Improving the Administration of the Foreign Exchange Concerning Direct Investment in February 2015, which took effect on June 1, 2015. This notice has amended Circular 37, requiring PRC residents or entities to register with qualified banks rather than SAFE or its local branch in connection with their establishment or control of an offshore entity established for the purpose of overseas investment or financing.

It remains unclear how Circular 37 will be interpreted and implemented, and how or whether SAFE will apply it to us. For example, the shares of Media Partner and Next Decade, two of our shareholders, are held in irrevocable discretionary family trusts established by Mr. Mo, of which Mr. Mo has represented that none of the trustees and beneficial owners is a PRC resident. However, since Mr. Mo, a PRC resident, was our indirect shareholder before the establishment of the family trusts, we have not been able to obtain confirmation from SAFE as to whether Circular 37 applies to us or Mr. Mo. We cannot predict how Circular 37 will affect our business operations or future strategies. If SAFE determines that Circular 37 does apply to us, our present and prospective PRC subsidiaries’ ability to conduct foreign exchange activities, such as any remittance of dividends or foreign currency-denominated borrowings, may be subject to compliance with Circular 37 requirements of our PRC resident shareholders. We cannot assure you that our PRC resident shareholders will be able to complete the necessary registration and filing procedures required by Circular 37. If Circular 37 is determined to apply to us or any of our PRC resident shareholders, a failure by any of our shareholders or beneficiary owners to comply with Circular 37 may subject the relevant shareholders or beneficiaries to penalties under PRC foreign exchange administrative regulations, and may subject us to fines or legal sanctions, restrict our overseas or cross-border investment activities, limit our subsidiaries’ ability to make distributions or pay dividends or affect our ownership structure, which would have a material adverse effect on our business, financial condition, results of operations and liquidity as well as our ability to pay dividends or make other distributions to our shareholders.

Regulations in China may make it more difficult for us to pursue growth through acquisitions.

On August 8, 2006, six PRC regulatory agencies jointly promulgated the Regulations on Mergers and Acquisitions of Domestic Companies by Foreign Investors (the “M&A Rules”), which became effective on September 8, 2006 and was amended on June 22, 2009. The M&A Rules and other 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 MOFCOM be notified in advance of any change-of-control transaction in which a foreign investor takes control of a PRC domestic enterprise or a foreign company with substantial PRC operations, if certain thresholds under the Provisions on Thresholds for Prior Notification of Concentrations of Undertakings, issued by the State Council on August 3, 2008, are triggered. According to the Notice regarding the Establishment of the Security Review System for Mergers and Acquisitions of Domestic Enterprises by Foreign Investors issued by the General Office of the State Council in February 2011 and the Implementing Rules Concerning Security Review on the Mergers and Acquisitions by Foreign Investors of Domestic Enterprises issued by MOFCOM in August 2011, mergers and acquisitions by foreign investors involved in an industry related to national security are subject to strict review by MOFCOM. These rules also prohibit any transactions attempting to bypass such security review, including by controlling entities through contractual arrangements. We believe that our business is not in an industry related to national security. However, we cannot preclude the possibility that MOFCOM or other government agencies may publish interpretations contrary to our understanding or broaden the scope of such security review in the future. Although we have no current plans to make any acquisitions, we may elect to grow our business in the future in part by directly acquiring complementary businesses in China. Complying with the requirements of these regulations to complete such transactions could be time-consuming, and any required approval processes, including obtaining any required MOFCOM approvals, may delay or inhibit our ability to complete such transactions.

We may be subject to fines and legal or administrative sanctions if we or our PRC citizen employees fail to comply with PRC regulations with respect to the registration of such employees' share options and restricted share units.

In February 2012, SAFE promulgated the Notices on Issues concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plan of Overseas Publicly-Listed Company (the "Stock Option Rule"). Under the Stock Option Rule, a Chinese entity's directors, supervisors, senior management officers, other staff, or individuals who have an employment or labor relationship with such Chinese entity and who are granted stock options by an overseas publicly listed company are required, through a PRC agent or PRC subsidiary of such overseas publicly listed company, to register with SAFE and complete certain other procedures. Our local employees who have been granted stock options are subject to these regulations. We have designated our relevant PRC subsidiaries to handle the registration and other procedures required by the Stock Option Rule. If we or our PRC option holders fail to comply with these rules, we and our PRC option holders may be subject to fines and other legal or administrative sanctions. See "Item 4.B. Information on the Company—Business Overview—Regulation—Regulations relating to Employee Share Options" of this annual report.

We face uncertainties with respect to indirect transfers of equity interests in PRC resident enterprises by their non-PRC holding companies. Enhanced scrutiny over acquisition transactions by the PRC tax authorities may have a negative impact on potential acquisitions we may pursue in the future.

On February 3, 2015, the SAT issued the Public Notice Regarding Certain Corporate Income Tax Matters on Indirect Transfer of Properties by Non-Tax Resident Enterprises ("Public Notice 7"). According to Public Notice 7, where a non-resident enterprise investor transfers taxable assets through the offshore transfer of a foreign intermediate holding company, the non-resident enterprise investor, being the transferor, may be subject to PRC enterprise income tax, if the indirect transfer is considered to be an abusive use of company structure without reasonable commercial purposes. As a result, gains derived from such indirect transfer may be subject to PRC withholding tax at the rate of up to 10.0%. In addition, Public Notice 7 provides clearer criteria than Circular 698 on how to assess reasonable commercial purposes and has introduced safe harbors for internal group restructurings and the purchase and sale of equity through a public securities market. Public Notice 7 also brings challenges to both the foreign transferor and transferee (or other person who is obligated to pay for the transfer) of the taxable assets. Where a non-resident enterprise conducts an "indirect transfer" by transferring the taxable assets indirectly by disposing of the equity interests of an overseas holding company, the non-resident enterprise being the transferor, or the transferee, or the PRC entity which directly owned the taxable assets may report to the relevant tax authority such indirect transfer. Using a "substance over form" principle, the PRC tax authority may re-characterize such indirect transfer as a direct transfer of the equity interests in the PRC tax resident enterprise and other properties in China. As a result, gains derived from such indirect transfer may be subject to PRC enterprise income tax, and the transferee or other person who is obligated to pay for the transfer is obligated to withhold the applicable taxes, currently at a rate of up to 10.0% for the transfer of equity interests in a PRC resident enterprise. Both the transferor and the transferee may be subject to penalties under PRC tax laws if the transferee fails to withhold the taxes and the transferor fails to pay the taxes.

Pursuant to the Notice on Issues Relevant to Withholding of Non-PRC Resident Enterprises Income Tax at Source ("Circular 37") issued by the SAT, which became effective as of December January 1, 2017, transferees are subject to filing obligations and withholding obligations. Both the transferor and the transferee may be subject to penalties under PRC tax laws if the transferee fails to withhold the taxes and the transferor fails to pay the taxes.

We face uncertainties with respect to the reporting and consequences of private equity financing transactions, share exchange or other transactions involving the transfer of shares in our company by investors that are non-PRC resident enterprises, or sale or purchase of shares in other non-PRC resident companies or other taxable assets by us. Our company and other non-resident enterprises in our group may be subject to filing obligations or being taxed if our company and other non-resident enterprises in our group are transferors in such transactions, and may be subject to filing obligations and withholding obligations if our company and other non-resident enterprises in our group are transferees in such transactions, under Circular 37 and Public Notice 7. For the transfer of shares in our company by investors that are non-PRC resident enterprises, our PRC subsidiaries may be subject to filing obligations and withholding obligations under Circular 37 and Public Notice 7. As a result, we may be required to expend valuable resources to comply with Circular 37 and Public Notice 7 or to request the relevant transferors from whom we purchase taxable assets to comply with these circulars, or to establish that our company and other non-resident enterprises in our group should not be taxed under these circulars. The PRC tax authorities have the discretion under Circular 37 and Public Notice 7 to make adjustments to the taxable capital gains based on the difference between the fair value of the taxable assets transferred and the cost of investment. If the PRC tax authorities make adjustments to the taxable income of the transactions under Circular 37 and Public Notice 7, our income tax costs associated with such transactions will be increased, which may have an adverse effect on our financial condition and results of operations. We have made acquisitions in the past and may conduct additional acquisitions in the future. We cannot assure you that the PRC tax authorities will not, at their discretion, adjust any capital gains and impose tax return filing obligations on us or require us to provide assistance to them for the investigation of any transactions we were involved in. Heightened scrutiny over acquisition transactions by the PRC tax authorities may have a negative impact on potential acquisitions we may pursue in the future.

Our independent registered public accounting firm is located in China, a jurisdiction where PCAOB is currently unable to conduct inspections without the approval of the PRC authorities, and as such, investors may be deprived of the benefits of such inspection.

Our independent registered public accounting firm, Ernst & Young Hua Ming LLP, which issues the audit reports included in our annual reports 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) ("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. Our auditor is located in China, a jurisdiction where PCAOB is currently unable to conduct inspections without the approval of the PRC authorities. In May 2013, PCAOB announced that it had entered into a Memorandum of Understanding on Enforcement Cooperation with the CSRC and the Ministry of Finance, which establishes a cooperative framework between the parties for the production and exchange of audit documents relevant to investigations undertaken by PCAOB, the CSRC or the Ministry of Finance in the United States and the PRC, respectively. PCAOB continues to be in discussions with the CSRC and the Ministry of Finance to permit joint inspections in the PRC of audit firms that are registered with PCAOB and audit Chinese companies that trade on U.S. exchanges.

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.

If additional remedial measures are imposed on the Chinese affiliates of the "big four" accounting firms, including our independent registered public accounting firm, in administrative proceedings brought by the SEC alleging the firms' failure to meet specific criteria set by the SEC, with respect to requests for the production of documents, we could be unable to timely file future financial statements in compliance with the requirements of the Exchange Act.

Beginning in 2011, the Chinese affiliates of the "big four" accounting firms (including our independent registered public accounting firm) were affected by a conflict between the U.S. and Chinese law. Specifically, for certain U.S.-listed companies operating and audited in China, the SEC and the PCAOB sought to obtain access to the audit work papers and related documents of the Chinese affiliates of the "big four" accounting firms. The accounting firms were, however, advised and directed that, under Chinese law, they could not respond directly to the requests of the SEC and the PCAOB and that such requests, and similar requests by foreign regulators for access to such papers in China, had to be channeled through 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 "big four" accounting firms (including our independent registered public accounting firm). A first instance trial of these 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. Implementation of the latter penalty was postponed pending review by the SEC Commissioners. On February 6, 2015, before a review by the Commissioner had taken place, the firms reached a settlement with the SEC. Under the settlement, the SEC accepts that future requests by the SEC for the production of documents will normally be made to the CSRC. The firms will receive matching Section 106 requests, and are required to abide by a detailed set of procedures with respect to such requests, which in substance require them to facilitate production via the CSRC. If the firms fail to follow these procedures and meet certain other specified criteria, the SEC retains the authority to impose a variety of additional remedial measures, including, as appropriate, an automatic six-month bar on a firm's ability to perform certain audit work, commencement of new proceedings against a firm or, in extreme cases, the resumption of the current administrative proceeding against all four firms.

In the event that the SEC restarts administrative proceedings, depending upon the final outcome, listed companies in the U.S. with major PRC operations may find it difficult or impossible to retain auditors in respect of their operations in China, which could result in their 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 the firms may cause investor uncertainty regarding China-based, U.S.-listed companies, including our company, and the market price of their shares may be adversely affected.

If our independent registered public accounting firm was 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 shares from the New York Stock Exchange or deregistration from the SEC, or both, which would substantially reduce or effectively terminate the trading of our shares in the United States.

Fluctuations in the exchange rates of the Renminbi could materially and adversely affect the value of our shares, ADSs or notes and result in foreign currency exchange losses.

Substantially all of our revenues, cash and cash equivalent assets, costs and expenses, are denominated in Renminbi, and the functional currency of our principal operating subsidiaries and consolidated controlled entities is the Renminbi. On the other hand, a portion of our expenditures are denominated in foreign currencies, primarily the U.S. dollar, and we use the U.S. dollar as our functional and reporting currency. The ADSs and our notes are also traded in U.S. dollars. As a result, the value of your investment in our ADSs or notes will be affected by fluctuations in exchange rates, particularly appreciation or depreciation in the value of the Renminbi relative to the U.S. dollar and other foreign currencies, without giving effect to any underlying change in our business or results of operations.

The exchange rates between the Renminbi and the U.S. dollar and other foreign currencies are affected by, among other things, changes in China's political and economic conditions. In July 2005, the PRC government discontinued pegging the Renminbi to the U.S. dollar. However, the PBOC regularly intervenes in the foreign exchange market to prevent significant short-term fluctuations in the exchange rate. Between July 2008 and June 2010, the exchange rate between the Renminbi and the U.S. dollar had been stable and traded within a narrow range. However, the Renminbi fluctuated significantly during that period against other freely traded currencies, in tandem with the U.S. dollar. Since June 2010, the Renminbi had started to slowly appreciate against the U.S. dollar, though there have been periods when the U.S. dollar has appreciated against the Renminbi. On August 11, 2015, the PBOC allowed the Renminbi to depreciate by approximately 2% against the U.S. dollar. Since October 1, 2016, the Renminbi has joined the International Monetary Fund (IMF)'s basket of currencies that make up the Special Drawing Right (SDR), along with the U.S. dollar, the Euro, the Japanese yen and the British pound. In the fourth quarter of 2016, the Renminbi has depreciated significantly in the backdrop of a surging U.S. dollar and persistent capital outflows of China. It is therefore difficult to predict how long such depreciation of Renminbi against the U.S. dollar may last and when and how the relationship between the Renminbi and the U.S. dollar may change again. Under China's current exchange rate regime, the Renminbi may appreciate or depreciate significantly in value against the U.S. dollar in the medium to long term. Moreover, it is possible that in the future the PRC authorities may lift restrictions on fluctuations in the Renminbi exchange rate and lessen intervention in the foreign exchange market.

There remains significant international pressure on the PRC government to adopt a flexible currency policy. Any significant appreciation or depreciation of the Renminbi may materially and adversely affect our revenues, earnings and financial position, and the value of, and any dividends payable on, our ADSs in U.S. dollars. For example, to the extent that we need to convert U.S. dollars we receive from offshore financing transactions into Renminbi to pay our operating expenses, appreciation of the Renminbi against the U.S. dollar would have an adverse effect on the Renminbi amount we would receive from the conversion. Conversely, a significant depreciation of the Renminbi against the U.S. dollar may significantly reduce the U.S. dollar equivalent of our earnings, which in turn could adversely affect the price of our ADSs. Fluctuations in the exchange rate will also affect the relative value of any dividend we declare and distribute that will be exchanged into U.S. dollars and earnings from and the value of any U.S. dollar-denominated investments we make in the future. To the extent that we need to convert future financing proceeds into Renminbi for our operations, any appreciation of the Renminbi against the relevant foreign currencies would materially reduce the Renminbi amounts we would receive from the conversion. On the other hand, if we decide to convert our Renminbi into U.S. dollars for the purpose of making payments of dividends on our shares or for other business purposes when the U.S. dollar appreciates against the Renminbi, the amounts of U.S. dollars we would receive from such conversion would be reduced. In addition, any depreciation of our U.S. dollar-denominated monetary assets could result in a charge to our income statement and a reduction in the value of our assets.

In addition, very limited hedging transactions are available in China to reduce our exposure to exchange rate fluctuations. To date, we have not entered into any hedging transactions to reduce our exposure to foreign currency exchange risk. While we may decide to enter into hedging transactions in the future, the availability and effectiveness of these hedging transactions may be limited and we may not be able to successfully hedge our exposure at all. In addition, our currency exchange losses may be magnified by PRC exchange control regulations that restrict our ability to convert Renminbi into foreign currency.

You may experience difficulties in effecting service of legal process, enforcing foreign judgments or bringing original actions in China based on United States or other foreign laws against us or our management.

We are a company incorporated under the laws of the Cayman Islands. We conduct our operations in China and substantially all of our assets are located in China. In addition, certain of our directors and executive officers reside in China, and most of the assets of these persons are located within China. As a result, it may not be possible to effect service of process within the United States or elsewhere outside China upon these directors and executive officers, including with respect to matters arising under U.S. federal securities laws or applicable state securities laws. Our PRC legal counsel has advised us that the recognition and enforcement of foreign judgments are provided for under the PRC Civil Procedure Law. PRC courts may recognize and enforce foreign judgments in accordance with the requirements of the PRC Civil Procedure Law based either on treaties between China and the country where the judgment is made or on reciprocity between jurisdictions. Currently, there are no treaties between the United States and China for the recognition or enforcement of U.S. court judgments in China. As a result, recognition and enforcement in China of judgments of a court in the United States or any other jurisdiction in relation to any matter not subject to a binding arbitration agreement may be difficult. Pursuant to the PRC Civil Procedure Law, any matter, including matters arising under U.S. federal securities laws, in relation to assets or personal relationships may be brought as an original action in China, only if the institution of such action satisfies the conditions specified in the PRC Civil Procedure Law. As a result of the conditions set forth in the PRC Civil Procedure Law and the discretion of the PRC courts to determine whether the conditions are satisfied and whether to accept the action for adjudication, there remains uncertainty as to whether an investor will be able to bring an original action in a PRC court based on U.S. federal securities laws. In addition, in the event that foreign judgments contravene the basic principles of laws of China, endanger PRC state sovereignty or security, or are in conflict with the public interest of China, PRC courts will not recognize and enforce such foreign judgments.

Risks related to our ADSs, ordinary shares and notes

The market price movement of our ADSs and notes may be volatile.

The market prices of our ADSs and/or notes may be volatile and subject to wide fluctuations. Among the factors that could affect the prices of our ADSs and/or notes are risk factors described in this section and other factors, including:

- announcements of competitive developments;
- regulatory developments in our target markets in China which affect us, our users, our customers or our competitors;
- actual or anticipated fluctuations in our quarterly results of operations;
- market acceptance of our existing and new services and our expansion from a media platform to media, transaction and financial platforms;
- failure of our quarterly financial and results of operations to meet market expectations or failure to meet our previously announced guidance;
- changes in financial estimates by securities research analysts;
- changes in the economic performance or market valuations of other online or offline real estate and home-related services companies;
- additions or departures of our executive officers and other key personnel;
- announcements regarding intellectual property litigation (or potential litigation) involving us or any of our directors and officers;
- negative publicity and short seller reports that make allegations against us or our affiliates, even if unfounded;
- fluctuations in the exchange rates between the U.S. dollar and the Renminbi;
- fluctuations in short or long-term interest rates; and

sales or perceived sales of additional ordinary shares, ADSs or notes, including under the registration statement we have on file with the SEC to enable certain of our affiliates to sell their shares.

In addition, the securities markets have from time to time experienced significant price and volume fluctuations that are not related to the operating performance of particular industries or companies. For example, the capital and credit markets have experienced significant volatility and disruption in recent years. In September 2008, such volatility and disruption reached extreme levels and developed into a global crisis. As a result, stock prices of a broad range of companies worldwide, whether or not they were related to financial services, declined significantly. Future market fluctuations may also have a material adverse effect on the market prices of our ADSs and/or notes.

We may need additional capital, and the sale of additional ADSs, convertible notes or other equity securities could result in additional dilution to our shareholders, while the incurrence of debt may impose restrictions on our operations.

We believe that our current cash and cash equivalents and anticipated cash flow from operations will be sufficient to meet our anticipated cash needs for the foreseeable future. We may, however, require additional cash resources due to changed business conditions or other future developments, including any investments or acquisitions we may decide to pursue and the expansion of our financial services. If these resources are insufficient to satisfy our cash requirements, we may seek to sell equity or debt securities or obtain a credit facility. The sale of equity securities would result in dilution to our shareholders. The incurrence of indebtedness would result in increased debt service obligations and could require us to agree to operating and financing covenants that would restrict our operations.

As a foreign private issuer, we are permitted to, and we rely on exemptions from certain corporate governance standards of The New York Stock Exchange applicable to U.S. issuers, including the requirement that a majority of an issuer's directors consist of independent directors. This may afford less protection to holders of our ordinary shares, ADSs and notes.

We are a "foreign private issuer" under the securities laws of the United States and the rules of The New York Stock Exchange. Under the securities laws of the United States, "foreign private issuers" are subject to different disclosure requirements than U.S. domiciled registrants, as well as different financial reporting requirements. Under the rules of The New York Stock Exchange, a "foreign private issuer" is subject to less stringent corporate governance requirements. Subject to certain exceptions, the rules of The New York Stock Exchange permit a "foreign private issuer" to follow its home country practice in lieu of the listing requirements of The New York Stock Exchange. The corporate governance practice in our home country, the Cayman Islands, does not require a majority of our board to consist of independent directors or that we have annual meetings to elect directors. We currently rely on the exemptions provided by The New York Stock Exchange to a foreign private issuer and have an audit committee comprised of independent directors, a compensation committee with one non-independent director and a nominating and corporate governance committee with one non-independent director. As a result, you may not have the same protections afforded to stockholders of companies that are subject to all of the corporate governance requirements of The New York Stock Exchange.

As a foreign private issuer, we are exempt from certain disclosure requirements under the Exchange Act, which may afford less protection to our shareholders than they would enjoy if we were a U.S. company.

As a foreign private issuer, we are exempt from, among other things, the rules prescribing the furnishing and content of proxy statements under the Exchange Act. In addition, our executive officers, directors and principal shareholders are exempt from the reporting and short-swing profit and recovery provisions contained in Section 16 of the Exchange Act. We are also not required under the Exchange Act to file periodic reports and financial statements with the SEC as frequently or as promptly as U.S. companies whose securities are registered under the Exchange Act. As a result, our shareholders may be afforded less protection than they would under the Exchange Act rules applicable to U.S. companies.

Since shareholder rights under Cayman Islands law differ from those under U.S. law, you may have difficulty protecting your shareholder rights.

Our corporate affairs are governed by our fifth amended and restated memorandum and articles of association, the Companies Law of the Cayman Islands (the "Cayman Companies Law") and the common law of the Cayman Islands. The rights of shareholders to take action against our directors, actions by minority shareholders and the fiduciary responsibilities of our directors to us and to our shareholders 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 English common law, which has persuasive, but not binding, authority on a court in the Cayman Islands.

The rights of our shareholders and the fiduciary responsibilities of our directors under Cayman Islands law are not as clearly established as they are 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 as compared to the United States, and some states, such as Delaware, have more fully developed and judicially interpreted bodies of corporate law. 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.

As a result, public shareholders of Cayman Islands companies may have more difficulty in protecting their interests in connection with actions taken by management, members of the board of directors or controlling shareholders than they would as public shareholders of a U.S. company.

The voting rights of holders of ADSs are limited by the terms of the deposit agreement.

A holder of our ADSs may only exercise the voting rights with respect to the underlying ordinary shares in accordance with the provisions of the deposit agreement. Upon receipt of voting instructions of a holder of ADSs in the manner set forth in the deposit agreement and the restricted deposit agreement pursuant to which ADSs are issuable upon conversion of the notes, the depositary will endeavor to vote the underlying ordinary shares in accordance with these instructions. Under our amended and restated articles of association and Cayman Islands law, the minimum notice period required for convening a general meeting is 10 days. When a general meeting is convened, you may not receive sufficient notice to permit you to withdraw your ordinary shares and allow you to cast your vote as a direct shareholder 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 shares. Furthermore, the depositary and its agents will not be responsible for any failure to carry out any instructions to vote, for the manner in which any vote is cast or for the effect of any such vote. As a result, you may not be able to exercise your right to vote and you may lack recourse if the ordinary shares underlying your ADSs are not voted as you requested.

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

We may, from time to time, distribute rights to our shareholders, including rights to acquire securities. We cannot offer or sell securities in the United States unless we register those securities under the Securities Act or unless an exemption from the registration requirements of the Securities Act is available. 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 Securities Act. The depositary may, but is not required to, attempt to sell such undistributed rights to third parties in this situation. We can give no assurances that we will be able 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 any rights offerings and may experience dilution of their holdings as a result.

If the depositary is unable to sell rights that are not exercised or not distributed or if the sale is not lawful or reasonably practicable, it will allow the rights to lapse, in which case you will receive no value for these rights.

You may not receive distributions on ordinary shares or any value for them if it is illegal or impractical to make them available to you.

The depositary for our ADSs has agreed to pay to you the cash dividends or other distributions it or its custodian receives on ordinary shares or other deposited securities after deducting its fees and expenses. You will receive these distributions in proportion to the number of ordinary shares your ADSs represent. For example, as of the date of this annual report, five ADSs represent one Class A ordinary share. However, the depositary is not required to make such distributions if it decides that it is unlawful or impractical to make a distribution available to any holder of ADSs. For example, it would be unlawful to make a distribution to holders of ADSs if it consisted of securities that required registration under the Securities Act, but were not properly registered or distributed pursuant to an applicable exemption from registration. It could also be impracticable to make a distribution if doing so would entail fees and expenses that would exceed the value of the distribution or the distribution consisted of property that could not be transported or transferred. We have not undertaken any obligation to register under U.S. securities laws any ADSs, ordinary shares, rights or other securities that may be distributed to our shareholders. We also have not undertaken any 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 any distribution we make on our ordinary shares or any value for it if it is illegal or impractical for us to make such distribution available to you, such as if an exemption from registration under the U.S. securities laws is not available. These restrictions may decrease the value of your ADSs.

We may be required to withhold PRC income tax on any dividend we pay you, and any gain you realize on the transfer of our ordinary shares and/or ADSs may also be subject to PRC withholding tax.

Pursuant to the New EIT Law, we and our offshore subsidiaries may be treated as a PRC resident enterprise for PRC tax purposes. See “—Risks related to doing business in China—We may be treated as a resident enterprise for PRC tax purposes under the New EIT Law and therefore be subject to PRC taxation on our worldwide income.” If we and our offshore subsidiaries are so treated by the PRC tax authorities, we would be obligated to withhold a 10.0% PRC withholding tax for non-resident enterprises or a 20.0% PRC withholding tax for non-resident individuals, or a withholding tax at a reduced rate as provided under the applicable double tax treaty between China and the governments of other jurisdictions on any dividend we pay to you, subject to completion of the record-filing procedures and approval from the relevant tax authorities, pursuant to a Circular No. 124 issued by SAT in August 2009 (“Circular 124”).

On November 1, 2015, Circular 124 was repealed by the Administrative Measures for Tax Convention Treatment for Non-resident Taxpayers issued by SAT (“Circular 60”). Circular 60 provides that non-resident taxpayers are not required to obtain pre-approval from the relevant tax authority in order to enjoy the reduced withholding tax rate. Instead, they may, upon self-assessment that the prescribed criteria are met, submit the relevant statements and materials directly to the competent tax authorities for the tax return filing, which will be subject to post-filing examinations by the relevant tax authorities.

In addition, any gain realized by any investors who are non-resident enterprises or non-resident individuals of China from the transfer of our ordinary shares, ADSs and/or notes could be regarded as being derived from sources within China and be subject to a 10.0% or 20.0% PRC withholding tax, respectively. Such PRC withholding tax would reduce your investment return on our ordinary shares, ADSs and/or notes and may also materially and adversely affect the prices of our ADSs and/or notes.

Our dual-class ordinary share structure with different voting rights could discourage others from pursuing any change of control transactions that holders of our Class A ordinary shares and ADSs may view as beneficial.

Our ordinary shares are divided into Class A ordinary shares and Class B ordinary shares. Holders of Class A ordinary shares are entitled to one vote per share, while holders of Class B ordinary shares are entitled to 10 votes per share. Five ADSs represent one Class A ordinary share and the number of votes to which each ADS would be entitled to is the number of Class A ordinary shares it represents. A number of our shareholders, including primarily Media Partner and Next Decade, whose shares are held in irrevocable discretionary trusts established by Mr. Mo, hold Class B ordinary shares. We intend to maintain the dual-class ordinary share structure. Each Class B ordinary share is convertible into one Class A ordinary share at any time by its holder and Class A ordinary shares are not convertible into Class B ordinary shares under any circumstances. Upon any transfer of Class B ordinary shares by a Class B ordinary shareholder to any person or entity which is not a majority-owned and majority-controlled subsidiary of certain of our shareholders as set forth in our amended and restated articles of association, such Class B ordinary shares will be automatically and immediately converted into the equal number of Class A ordinary shares.

Due to the disparate voting powers attached to these classes of shares, our shareholders holding Class B ordinary shares have significant voting power over matters requiring shareholder approval, including election of directors and significant corporate transactions, such as a merger or sale of our company or our assets. This concentrated control could discourage others from pursuing any potential merger, takeover or other change-of-control transactions that holders of Class A ordinary shares and ADSs may view as beneficial.

Our articles of association contain anti-takeover provisions that could adversely affect the rights of holders of our ordinary shares and ADSs

We have included certain provisions in our current articles of association that would limit the ability of others to acquire control of our company. These provisions could deprive our shareholders of the opportunity to sell their ordinary shares at a premium over the prevailing market price by discouraging third parties from seeking to obtain control of our company in a tender offer or similar transactions. These provisions include the following:

- A dual-class ordinary share structure; and
- Our board of directors, without further action by our shareholders, may issue preferred shares with special voting rights compared to our ordinary shares.

Servicing our debt requires a significant amount of cash, and we may not have sufficient cash flow from our business to pay our substantial debt.

Our ability to make scheduled payments of the principal of, to pay interest on or to refinance our indebtedness, including the notes, depends on our future performance, which is subject to economic, financial, competitive and other factors beyond our control. Our business may not continue to generate cash flow from operations in the future sufficient to service our debt and make necessary capital expenditures. If we are unable to generate such cash flow, we may be required to adopt one or more alternatives, such as selling assets, restructuring debt or obtaining additional equity capital on terms that may be onerous or highly dilutive. Our ability to refinance our indebtedness will depend on the capital markets and our financial condition at such time. We may not be able to engage in any of these activities or engage in these activities on desirable terms, which could result in a default on our debt obligations.

We may incur more debt or take other actions which would intensify the risks discussed above.

We and our subsidiaries and consolidated controlled entities may incur substantial additional debt in the future, some of which may be secured debt. We will not be restricted under the terms of the indenture governing the notes from incurring additional debt, securing existing or future debt, recapitalizing our debt or taking a number of other actions that are not limited by the terms of the indenture governing the notes that could have the effect of diminishing our ability to make payments on the notes when due.

We may not have the ability to raise the funds necessary to repurchase the 2022 Notes upon a fundamental change (as defined in the relevant note documents), and our future debt may contain limitations on our ability to repurchase the notes.

Holders of certain of our outstanding notes will have the right to require us to repurchase their notes upon the occurrence of a fundamental change (as defined in the relevant note documents) at a repurchase price equal to 100.0% of the principal amount of the notes to be repurchased, plus accrued and unpaid interest under certain circumstances. However, we may not have enough available cash or be able to obtain financing at the time we are required to make repurchases of notes surrendered therefor. In addition, our ability to repurchase the notes may be limited by law, by regulatory authority or by agreements governing our future indebtedness. Our failure to repurchase notes at a time when the repurchase is required by the relevant note documents would constitute a default under such documents. A default under the relevant note documents or the fundamental change itself could also lead to a default under agreements governing any future indebtedness. If the repayment of any future indebtedness were to be accelerated after any applicable notice or grace periods, we may not have sufficient funds to repay the indebtedness and repurchase the notes.

The future sale of substantial amounts of ADSs and/or convertible notes could lower the market price for the ADSs and/or our outstanding notes, as the case may be.

Sales of substantial amounts of ADSs and/or notes that may be converted or exchanged into ADSs or ordinary shares in the public market, or the perception that these sales could occur, could adversely affect the market price of our ADSs, could materially impair our ability to raise capital through equity offerings in the future and could adversely impact the trading price of the ADSs and/or the notes. The ADSs outstanding not held by our affiliates are freely tradable without restriction or further registration under the Securities Act, and shares held by our affiliates may also be sold in the public market in the future subject to the restrictions in Rule 144 under the Securities Act. We may also issue additional options in the future which may be exercised for additional ordinary shares and additional restricted shares and restricted share units. As of March 31, 2018, we had 88,696,712 ordinary shares outstanding, 12,941,511 ordinary shares reserved for issuance under our outstanding share-based awards and 1,319,681 ordinary shares reserved for issuance under our employee benefit plans for future share-based awards. We cannot predict what effect, if any, market sales of securities held by our significant shareholders or any other shareholder or the availability of these securities for future sale will have on the market price of the ADSs or the trading price of the notes.

We may become a passive foreign investment company (“PFIC”), which could result in adverse U.S. tax consequences to U.S. investors.

A non-U.S. corporation is deemed a PFIC for any taxable year if either (1) at least 75% of its gross income for such year is passive income, or (2) at least 50% of the value of its assets (based on an average of the quarterly values of the assets) during such year is attributable to assets that produce passive income or are held for the production of passive income. We operate an active real estate Internet portal in China. Based on the market price of our ADSs, the value of our assets, and the composition of our income and assets, we do not believe we were a PFIC for the taxable year ended December 31, 2017 and, not taking into account transactions outside of the ordinary course of business, we do not believe that we are likely to become one in our current taxable year or any future tax years. The determination of whether a non-U.S. corporation is a PFIC is made on an annual basis after the close of each tax year. There can be no assurance that we will not be a PFIC for our current taxable year or any future tax year. One consequential factor affecting the outcome of annual PFIC determination in current and future tax years will be our market capitalization. Because items of working capital are generally treated as passive assets for PFIC purposes, accumulating cash, cash equivalents and other assets such as short-term and long-term investments that are readily convertible into cash increases the risk that we will be classified as a PFIC for U.S. federal income tax purposes. A determination that we are a PFIC could result in adverse U.S. tax consequences to you if you are a U.S. taxpayer and own our ADSs or ordinary shares, in the form of increased tax liabilities and burdensome reporting requirements. For example, if we were a PFIC, you would generally be taxed at the higher ordinary income rates, rather than the lower capital gain rates, if you dispose of ADSs or ordinary shares at a gain in a later year, even if we are not a PFIC in that year. In addition, a portion of the tax imposed on your gain would be increased by an interest charge. Certain elections may be available to certain of our holders, however, that would mitigate these adverse tax consequences to varying degrees. Also, if we were classified as a PFIC in any taxable year, you would not be able to benefit from any preferential tax rate (if any) with respect to any dividend distribution that you may receive from us in that year or in the following year. Since our business and assets may evolve over time in ways that are different from what we currently anticipate, we cannot assure you that we will not be a PFIC for our current taxable year or any future taxable year. For more information on the tax consequences to you if we were treated as a PFIC, see “Item 10.E. Additional Information—Taxation—U.S. federal income taxation” of this annual report.

ITEM 4. INFORMATION ON THE COMPANY

A. History and Development of the Company

We were incorporated on June 18, 1999 as Fly High Holdings Limited, under the laws of the British Virgin Islands, and on July 14, 1999, we changed our name to SouFun.com Limited. On June 17, 2004, we changed our corporate domicile to the Cayman Islands, becoming a Cayman Islands exempted company with limited liability. On June 22, 2004, we changed our name to SouFun Holdings Limited. On September 23, 2016, we changed our name to Fang Holdings Limited. Since our inception, we have conducted our operations in China primarily through our PRC subsidiaries and consolidated controlled entities.

On September 17, 2010, we completed our initial public offering and listing of 2,933,238 ADSs, each representing four Class A ordinary shares, on the New York Stock Exchange, which are traded under the symbol of “SFUN.” Concurrently with our initial public offering, our majority shareholder, Telstra International Holdings Ltd. (“Telstra International”), an indirect, wholly owned subsidiary of Telstra Corporation Limited, a Fortune Global 500 company, sold to General Atlantic Mauritius Limited (“General Atlantic”), Hunt 7-A Guernsey L.P. Inc. (“Hunt 7-A”), Hunt 7-B Guernsey L.P. Inc. (“Hunt 7-B”), Hunt 6-A Guernsey L.P. Inc. (“Hunt 6-A,” together with Hunt 7-A and Hunt 7-B, “Apax”), Next Decade and Digital Link Investments Limited (“Digital Link”), all of its remaining shares in our company in a private sale at the initial public offering price.

On February 18, 2011, we changed our ADS share ratio from one ADS representing four Class A ordinary shares to one ADS representing one Class A ordinary share.

On April 7, 2014, we changed our ADS share ratio from one ADS representing one Class A ordinary share to five ADSs representing one Class A ordinary share.

Our principal executive offices are located Block A, No. 20 Guogongzhuang Middle Street, Fengtai District, Beijing 100070, the People’s Republic of China. Our telephone number at this address is +8610 5631 8000. Our website address is www.fang.com. We do not incorporate the information on our website into this annual report. You can obtain the reports we file with the SEC. See “Where you can find more information.”

B. Business Overview

Overview

We operate the leading real estate Internet portal in China in terms of the number of page views and visitors to our websites in 2017, according to iResearch, an independent market research and consulting company. Our user-friendly websites and mobile apps support active online communities and networks of users seeking information on, and services for, the real estate and home-related sectors in China. Our service offerings include:

- *Listing services:* We offer basic and special listing services on our websites and mobile apps. Our basic listing services are primarily offered to real estate agents, brokers, developers, property owners and managers and suppliers of home furnishing and improvement and other home-related products and services. Our basic listing services allow our customers to post information of their products and services on our websites. Our special listing services offer specialized marketing programs through both online channels and offline themed events. Listing services were our largest source of revenues in 2017.
- *Marketing services:* We offer marketing services on our websites and mobile apps, mainly through advertisements, to real estate developers in the marketing phase of new property developments, as well as to real estate agencies and suppliers of home furnishing and improvement and other home-related products and services who wish to promote their products and services. Marketing services were our second largest source of revenues in 2017.
- *E-commerce services:* Our e-commerce services primarily include Fang membership services, online real estate brokerage services, direct sales services for new homes, online home-decorating services and online sublease services. We provide both free and paid Fang membership services to our registered members. Our free services include primarily regular updates regarding local property developments, tours to visit property developments and other services relating to property purchases. Our paid services primarily include offers to purchase properties at a discount from our partner developers and dedicated information and related services to facilitate property purchases. In August 2014, we launched our direct sales services, whereby we promote and sell properties primarily through our websites and mobile apps to home buyers for a predetermined percentage of fees charged to our developer clients. As part of our effort to develop our transaction platform, we began to offer online real estate brokerage services in January 2015, online home-decorating services and online sublease services in the second quarter of 2015. E-commerce services were our third largest source of revenues in 2017.
- *Financial services:* We provide financial services through our online financial platform, www.fangtx.com, and offline micro loan subsidiaries. We provide primarily secured consumer loans to individuals that meet our credit assessment requirements. We launched financial services in August 2014.
- *Other value-added services:* We provide other value-added services including subscription services for access to our information database and consulting services for customized and industry-related research reports and indices.

We have built a large and active community of users, who are attracted by the comprehensive real estate and home related content available on our portal that forms the foundation of our service offerings. We currently maintain approximately 100 offices across China to focus on local market needs. Our user base has also attracted numerous customers, which include real estate developers, real estate agents and brokers, property owners, property managers, mortgage brokers, lenders and suppliers of home furnishing and improvement and other home-related products and services. Our diverse offerings and broad geographic coverage have resulted in an active and dynamic online community that provides an effective and targeted channel for advertisers to market their products and services, and serves as a centralized source of information, products and services for consumers in the real estate and home furnishing and improvement and other home-related markets. With our leading Internet portal, we believe that we are well positioned to develop integrated media, transaction and financing platforms, increase synergy and capture additional growth opportunities in the real estate market in China.

Our Services

We provide (1) listing services, (2) marketing services, (3) e-commerce services, (4) financial services and (5) other value-added services to participants in the PRC real estate and home-related sectors primarily through our websites and our mobile apps.

Listing Services

Our listing services include basic listing services and special listing services on our websites and mobile apps. Our revenues from listing services were US\$107.9 million, US\$118.1 million and US\$165.4 million in 2015, 2016 and 2017, respectively, representing 12.2%, 12.9% and 37.2% of our total revenues in those years, respectively.

Basic Listing Services. Basic listing services contributed approximately 78.7%, 78.0% and 85.0% of our listing service revenues in 2015, 2016 and 2017, respectively. Real estate agents, brokers, managers, developers, owners and suppliers of home furnishing and improvement products and services subscribe to our basic listing services for a fee, which allow them to post listings for properties or home furnishing and improvement products and services over the subscription periods. All visitors to our websites and mobile apps have access to listing information free of charge.

Most of our basic listing subscription contracts are one to three months in duration. We typically collect payments for such subscriptions for our basic listing services upon the signing of a subscription contract. We also offer longer arrangements, such as to certain large real estate agencies. For subscription contracts with longer terms, the contract prices are generally payable in installments every one to three months until the end of the contract term.

We offer free trials of our basic listing services. These free trials allow users to experience our basic listing services and high user traffic. While there is no time restriction on our free trials, there are incentives for free trial users to upgrade their free trial accounts to paid subscriptions for our basic listing services because listings posted through free trial accounts are featured in less prominent positions and rankings than those of subscribers. The average number of paying subscribers to our listing services was 206,791, 211,280 and 265,649 in 2015, 2016 and 2017, respectively.

In addition, we allow individual property owners to list their own properties for sale or rent on our property listing sections without charge. Such free listings do not enjoy prime positioning and are strictly limited to individual, non-real estate professional home owners. To help prevent real estate professionals from abusing the individual property owner basic listing service, we have created a customer hotline for our users to report any abuse.

Our basic listing services help us build our comprehensive database of information regarding new, secondary and rental properties as well as home furnishing and improvement products and services in major urban centers across China. The large amount of our basic listings attracts significant user traffic on our websites and mobile apps, which we believe can be leveraged to yield more marketing and special listing customers and higher marketing and special listing fees from our institutional customers.

We update the listing data on our websites and mobile apps on a daily basis through our proprietary content management process and software. This proprietary content management process is monitored by our listing monitoring team and allows our customers to submit listing information in a specific format. Our listing monitoring team periodically checks all listing information uploaded to our websites and mobile apps to identify common anomalies in posted information in order to limit unreliable data. Once we discover false information in a listing, we liaise with the real estate agent or broker to rectify the listing immediately. If such listing information is not revised on a timely basis, we will move it into a database that cannot be accessed by our users.

Special Listing Services. Special listing services are specialized marketing campaigns provided primarily to developers through online channels and offline themed events. Revenues from special listing services were US\$23.0 million, US\$26.4 million and US\$24.9 million in 2015, 2016 and 2017, respectively, representing 21.3%, 22.0% and 15.0% of our listing service revenues in those years, respectively.

Leveraging our data analytical capabilities, we assess the strengths of the brands of companies in various real estate sectors and create a special listing campaign to recognize the leading companies in those sectors. Once the special listing campaigns are determined, we establish a marketing and promotional program consisting of various online and offline promotional activities, which together collectively promote each special listing campaign. The program includes online marketing platforms such as our websites and WeChat and offline themed events such as conferences, discussion forums and banquets. Prior to the launch of a special listing campaign, our marketing and sales staff directly contact the targeted leading companies to solicit their participation in the special listing programs for a specified fee. We also provide our customers with periodical updates on industry developments to help them formulate brand management strategies. The duration of our special listing services typically lasts one year. Some examples of our special listing campaigns include events and promotions for the top 100 PRC property developers and the China Villa Festival. For details, see “—Brand Awareness and Marketing—Event Sponsorships” below.

Marketing Services

We target our marketing services toward participants in China’s real estate and home-related sectors. Marketing is one of our most important businesses. Revenues from marketing services were US\$249.9 million, US\$165.4 million and US\$149.3 million in 2015, 2016 and 2017, respectively, representing 28.3%, 18.1% and 33.6% of our revenues, respectively. Our marketing services are delivered through our website www.fang.com and our mobile apps, which can be downloaded for both iOS- and Android-based operating systems, and include traditional Internet advertisements such as banners, links, logos and floating signs, as well as featured promotions, which are specially-tailored packages of traditional online advertising tools, such as Internet advertisements, combined with our other services. Customers of our marketing services include a broad range of participants in the PRC real estate and home-related sectors, such as:

- real estate developers;

- real estate professionals, such as agents and brokers;
- retailers and other suppliers of home furnishing and improvement products and services; and
- home design, decoration and re-modeling companies.

We also combine traditional online advertising tools with our other services to create featured promotion packages for our customers. Using the inherent flexibility of website advertising, we create customized marketing and promotional packages with additional features at the request of our customers to meet the different needs of various customers operating in diverse geographic markets in China. We believe that we have the opportunity to provide additional features to generate additional revenues without incurring significant additional costs. Marketing services have been and will continue to be a growth area for us, as we believe that participants in China's real estate and home-related sectors are increasingly looking to the Internet and mobile apps as an additional vehicle through which to attract customers.

We generally enter into two main types of marketing contracts with our customers. The first type is a framework contract with payment due on a monthly basis. The second type is a general contract with payment due on either a quarterly or semi-annual basis or with 50% of the contract amount payable within seven days of the execution of the contract and the remainder payable within seven days of the expiration of the contract. Our marketing contracts generally have a one-year term. We also occasionally accept non-monetary payment such as a property unit from our real estate developer customers.

E-commerce Services

Our e-commerce services, first launched in 2011, include Fang membership services, online real estate brokerage services, direct sales services for new homes, online home-decorating services and online sublease services. Our revenues generated from e-commerce services were US\$474.8 million, US\$577.7 million and US\$87.8 million in 2015, 2016 and 2017, respectively, representing 53.7%, 63.0% and 19.8% of our revenues, respectively.

Fang Membership Services. We provide both free and paid membership services to the registered members of our Fang cards on our websites and mobile apps. Our free services include primarily regular updates regarding local property developments, tours to visit property developments and other services relating to properties purchases. Our paid services primarily include offers to home buyers to purchase properties with discounts from our partner developers and dedicated information and related services to facilitate property purchases, which we began to offer in 2011. Our membership fees for paid services generally range from RMB5,000 to RMB20,000. The discount is reflected as a fixed amount off, or a percentage discount to, the total purchase price paid by a home buyer for a specified property, or a combination of both, which is determined by us and our partner developers. The discounts are significantly higher than our membership fees, resulting in net savings for our members. Membership fees are refundable until our members use the discounts to purchase properties or pursuant to our refund policy. Our members pay a specified fee each time in order to be eligible for the discount provided for a particular property. To promote our services and reach additional customers, we may promote the property developments through other advertising channels and pay real estate agents for customer referrals. In 2017, we offered paid Fang membership services covering approximately 1,200 property developments in 79 cities in China. Our revenues from Fang membership services totaled US\$185.1 million, US\$114.7 million and US\$10.3 million in 2015, 2016 and 2017, respectively, or 21.0%, 12.5% and 2.3%, respectively, of our total revenues for the same periods.

Online Real Estate Brokerage Services. We launched our online real estate brokerage services in January 2015, which are currently offered in 28 major urban centers in China, such as Beijing, Shanghai, Guangzhou, Shenzhen, Chengdu, Chongqing, Wuhan and Nanjing. We act as an intermediary between sellers and buyers of secondary real properties, and our services primarily include property listing, advisory services and transaction negotiation and documentation. In addition to property sales, we also assist property owners and potential renters with leasing transactions. Different from conventional real estate brokers in China, we do not maintain extensive physical sales offices and instead rely primarily on our websites and mobile apps to source customers. Our revenues from online real estate brokerage services totaled US\$84.2 million, US\$248.9 million and US\$35.8 million in 2015, 2016 and 2017, respectively, or 9.5%, 27.2% and 8.1%, respectively, of our total revenues for the same periods.

Direct Sales Services. We launched our direct sales services in August 2014. We promote property developments of our developer clients primarily through our websites and mobile apps. Different from our Fang membership services, potential individual buyers can register with us free of charge if they are interested in any real estate properties covered by our direct sales services. In addition, individual buyers can enjoy discounted prices for properties that we offer from our developer clients. We charge our developer clients a fee for each property they sold through our direct sales services. Our fee generally is a predetermined percentage of the value of the individual transaction and is refundable pursuant to our refund policy. Our revenues from direct sales services totaled US\$132.9 million, US\$152.1 million and US\$26.9 million in 2015, 2016 and 2017, respectively, or 15.0%, 16.6% and 6.1%, respectively, of our total revenues for the same periods.

Online Home-decorating Services. We launched our online home-decorating services in the second quarter of 2015. Based on our customer's budget and plan for decoration, we engage third-party contractors to perform interior design, remodeling, renovating, furnishing and other home improvement services. We generally charge our customers a fixed fee based on the square footage of the premises undergoing decoration. We source customers primarily through our websites and mobile apps.

Online Sublease Services. We launched our online sublease services in the second quarter of 2015. We promote and market real properties leased from third parties on our websites and mobile apps, and sublease such properties to our customers for rental fees.

Financial Services

We introduced our financial services and launched our financing platform through www.fangtx.com in August 2014. Revenues from financial services were US\$29.6 million, US\$29.6 million and US\$12.1 million in 2015, 2016 and 2017, respectively, representing 3.4%, 3.2% and 2.7% of our revenues, respectively.

We primarily provide secured consumer loans to individuals that meet our credit assessment requirements. We generally charge borrowers both interest and service fees. We assess each individual loan receivable for impairment on a quarterly basis. As part of our impairment assessment, we consider the timeliness of collection to date, changes in the value of collateral provided by the borrowers and expected default rates.

We obtained approvals to engage in the microfinancing business from government authorities of four cities, including Beihai, Shanghai, Chongqing and Tianjin.

Other Value-added Services

In addition to listing, marketing, e-commerce and financial services, we also provide other value-added services which primarily include subscriptions to our information database and research reports services. Revenues from other value-added services were US\$21.4 million, US\$25.6 million and US\$29.8 million in 2015, 2016 and 2017, respectively, representing 2.4%, 2.8% and 6.7% of our total revenues, respectively. We utilize our extensive PRC real estate database, data analytics and research capabilities to provide online content relating to the real estate sector through our websites and mobile apps, such as real estate database access, research services, real estate industry and company-specific research reports. Our customers include PRC real estate enterprises, industry professionals as well as government entities.

Our Websites

Our principal website, www.fang.com, is the leading real estate Internet portal and one of the leading home furnishing and improvement websites in China in terms of visitor traffic. As part of our effort to promote our brand recognition, we changed the address of our principal website from www.soufun.com to www.fang.com in July 2014. "Fang" means "home" in Chinese. We believe that this new and simplified address will be much easier for Chinese users to remember and access, thereby improving our brand recognition. According to Google Analytics, www.fang.com received a monthly average of approximately 100 million unique visitors in the fourth quarter of 2016. In addition, we had approximately 80 million registered members of our www.fang.com website and had about 25 million registered members of our free and paid Fang membership services as of December 31, 2017.

As of December 31, 2017, our www.fang.com website contained contents covering more than 630 cities across China, as well as Hong Kong, Taiwan, Singapore, Japan, United States, Canada, Australia, United Kingdom and Spain. This website also contains links to other specialized real estate and home furnishing and improvement websites, including our www.jiatx.com website, our e-commerce transaction and payment platform, and our www.fangtx.com website, our financing platform.

We believe user satisfaction ultimately rests on the appeal, attraction and functionality of our websites. Our Internet technology and sales and marketing teams spend considerable time and resources upgrading and enhancing our websites based on market trends and feedback from users and our marketing and listing customers. We distinguish ourselves from other websites focused on real estate and home-related products and services through the quality and breadth of our content. We also maintain a centralized customer service hotline and e-mail reporting system through which users can obtain assistance or otherwise contact us.

Our www.fang.com website covers a wide spectrum of PRC real estate and home furnishing and improvement and other home-related information and constitutes the foundation and gateway for our primary business activities. We aim at providing a central forum of reliable information regarding China's real estate and home-related markets that is helpful to market participants in the transaction process. Our content, which is generally free to our website users, is designed to assist users with each step of the real estate and home furnishing and improvement and other home-related transaction process. Our extensive home-related content and information is organized into the following sections and categories on our website, which are intended to address the individual needs of our users.

Online Property Listings and Search Engines for New Home and Secondary and Rental Properties

Our www.fang.com website contains databases for new home, secondary and rental properties, and provides search engines on such properties in our databases.

With our on-the-ground capabilities in approximately 79 offices in China, we devote significant resources to collect first-hand real estate market intelligence and listing information in such markets and to update such information on a regular basis. Our user-friendly search engines and website interfaces allow users to tailor their searches to specific types of properties by using search criteria. Users seeking information on properties in specific geographic locations can narrow their searches to a specific city and often to specific districts or areas in the vicinity of a particular subway line within that city by using pull-down menus. Users can further refine their searches using selection criteria, including price range, type of property, number of rooms and size. After selecting search parameters, users are directed to a page listing available properties as well as basic information about each individual property, including location, price, number of rooms and the source of the listing.

Information on Home Related Products and Services

Our www.fang.com website contains information regarding design firms, contractors, do-it-yourself projects, building materials and a wide range of products and services relevant to home decoration and re-modeling, furniture and other home furnishing and services. We provide an efficient platform for companies in the home-related sector, which primarily include suppliers of furnishing and improvement products and services and are usually small in size, to promote their brands and establish their presence on the Internet. We also provide search tools enabling visitors to search for specific businesses by area of expertise, product or service category. For example, a visitor interested in searching for suppliers and installers of window products in Beijing can use our pull-down search tools to focus their search for businesses providing such products and services.

Other pull-down menus allow visitors to view numerous design concepts, model interior decoration plans or other home improvement ideas. After selecting search parameters, users are directed to a page listing applicable home furnishing and improvement products and services as well as basic information about each home furnishing and improvement product or service, including price, product and service information and the source of the information. Much of the content, pictures and graphics are provided by other users of the website, which allows people interested in home decoration and furnishing to share ideas and information online. Users can also use this section to find and compare the work and experience of architects and interior designers.

Real Estate Database and Information

Supported by China Index Academy, our website provides an extensive database for users to search real estate information, as well as general research reports regarding the PRC real estate industry at both the national and regional levels. The research section of our website provides research coverage of different topics within the PRC real estate industry. For example, our research database contains information on topics such as real estate projects, land information, real estate financing information, real estate-related laws and regulations and real estate public company information. We believe our research section serves to raise our profile as experts on the PRC real estate industry. Supported by a dedicated research team and an advisory board of leading real estate experts and industry professionals, our research section offers a collective body of knowledge that we believe is well-known in the PRC real estate industry.

Online Residential Communities

We offer online residential community services through our website, www.fang.com. Such online residential community services provide a forum for visitors to share personal views, anecdotes and other information regarding different aspects of the PRC real estate market, specific property developments and residential communities and other subjects. They also provide a platform for conducting real estate and home furnishing and improvement and other home-related transactions online. We believe our electronic bulletin board forums, blogs and other online community-oriented services are valuable means for enhancing loyalty and brand awareness among our users by creating virtual communities sharing a common interest in PRC real estate and home-related topics. In addition to using such forums to increase website traffic, we are also exploring ways to generate new revenue streams from our online forums and community-oriented services.

Our Mobile Apps

We have developed a series of mobile apps to meet the diverse needs of home buyers, renters and real estate agents. As of March 31, 2018, we had approximately 950,000 iOS and 650,000 Android-based mobile apps, respectively. These mobile apps are downloadable through our websites and major app stores in China. At the end of 2017, approximately 65.0% of the daily active users were accessing our contents through our mobile platform (including WAP and mobile apps).

Our National Coverage

Currently we provide real estate-related content, search services, marketing and listing coverage of more than 650 cities across China and have on-the-ground personnel located in approximately 78 offices nationwide. In addition, we began to offer e-commerce services in 2011, and our Fang membership services had already extended to 78 cities as of December 31, 2017. We believe this extensive nationwide coverage enhances our national brand image, and enables us to deliver consistent and quality listing, marketing and e-commerce services to customers. The real estate industry is inherently a local industry, and online listing and online marketing services targeted at the real estate industry are most effective when delivered by personnel familiar with and experienced in the relevant local markets. Our local personnel also provide our central office staff with valuable data regarding these local real estate markets, which contributes to our knowledge and expertise about real estate markets throughout China. In addition, our network of branch offices helps us to tailor our listing, marketing and e-commerce services to local conditions and the needs of local real estate developers and real estate professionals, and to provide close after-sales support and services.

We have established a strong presence in 11 major cities, including Beijing and Shanghai, which are our level 1 cities, and Shenzhen, Chongqing, Tianjin, Chengdu, Guangzhou, Hangzhou, Wuhan, Suzhou and Nanjing, which are our level 2 cities. We entered these cities in the early stages of our development, and these cities have contributed and are expected to continue to contribute a majority of our revenues in the near future. In most of these cities, we offer our full line of services and target a full range of customers, including new home developers, agents, brokers, property managers and suppliers of home furnishing and improvement and other home-related products and services.

We also offer limited listing and other information relating to the real estate markets in Hong Kong, Taiwan, Singapore, Japan, United States, Canada, Australia, United Kingdom and Spain, but these markets do not constitute a material part of our business.

China Index Academy

We established China Index Academy in 1999 with the aim of providing industry professionals and consumers with the critical knowledge and tools to conduct business in China's real estate market. China Index Academy strives to deliver a wide spectrum of real estate information, analytics and online marketing tools to industry professionals and customers, including "China Index Suite" and promotion services.

"China Index Suite" is an integrated suite of service offerings that provides subscribers with an inventory of information and analysis of the real estate industry in China. "China Index Suite" is established based on China Real Estate Index System, known as CREIS, a comprehensive set of benchmarks and databases operated by China Index Academy and widely adopted by market participants to track and better understand real estate price movements in China. We also offer a variety of promotion services to China's real estate market through a combination of our online marketplaces of real estate and lands across multiple Internet channels, including our websites www.fang.com and www.landlist.cn, WeChat and other new media platforms and various offline events we sponsor, including conferences, discussion forums and banquets.

We expect that China Index Academy will expand its services to meet the rapidly changing demands of China's real estate market, especially China's commercial property market, including without limitation retail, office, industrial, warehouse and commercial land.

Brand Awareness and Marketing

We believe our comprehensive content has made www.fang.com a leading destination website for real estate participants in China. In addition, we seek to promote our websites and mobile apps and the related "Fang Tian Xia" and other brands through our directed selling efforts and other means, including our support for research, academic organizations and the publication of various research reports, event sponsorships, portal collaboration arrangements and marketing alliances. As a result, we believe we have become commonly associated with China's growing real estate and home-related sectors.

Real Estate Research and Reports

We believe our knowledge of China's real estate and home-related sectors provides a valuable competitive advantage and helps promote our brand name in the PRC real estate and furnishing and improvement market. The attractiveness of our listing, marketing and e-commerce services is rooted in our ability to commercialize various aspects of our databases and industry knowledge to create new and innovative services for our listing, marketing and e-commerce customers. To maintain and extend our leading position in this area, we seek to recruit and retain employees knowledgeable about China's real estate and home-related sectors through a variety of incentive measures, including share-based compensation plans. Members of our research department produce research reports and provide other information services that help promote our reputation as an informed participant in China's real estate and home-related sectors.

Event Sponsorships

We regularly sponsor real estate and home furnishing and improvement events attended by industry participants. We organized and hosted, both online and offline, 14 consecutive China Villa Festivals from 2004 to 2017, each of which is an annual event that attracts media, real estate professionals, economists and industry academics. This special listing event was coupled with a marketing program which promoted and advertised various villa projects across 100 cities in China. In March, 2018, we also hosted our fifteenth annual conference in Beijing to announce the "Top 100 Property Developers in China" together with the Enterprise Economic Research Institute of the Development Research Center of the PRC State Council and the Institute of Real Estate Studies of Tsinghua University, two of China's leading research institutions. Many PRC real estate developers and government agencies involved in the PRC real estate sector attended this conference. The event also attracted broad media attention and interest from the public in each of the past ten years that we held the event.

Portal Collaboration Arrangements

We work with well-known Internet portals to attract additional users to our websites and mobile apps. Our portal collaboration arrangements typically have terms ranging from one to three years, with fees paid to our portal collaboration partners in installments every three months.

We currently have portal collaboration arrangements with some of China's large Chinese-language portals to generate user traffic to our website.

Advertising and Marketing

We began to conduct general marketing and advertising activities to promote awareness of our new "Fang Tian Xia" and "Fang.com" brands in July 2014. We have also used outdoor advertisements in the Beijing Capital International Airport, bus bulletin boards and subway stations.

Our Sales Force

We have built a sales and marketing team that is experienced in the online advertising, Internet and real estate industries. As of December 31, 2017, our sales and marketing team consisted of approximately 847 persons located in approximately 100 offices across China. We also occasionally engage sales agents for collecting information on local markets or for specific business lines within local markets. Our sales and marketing team, together with these sales agents, 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 helps us to set our prices and strategies for each locality.

Our sales and marketing personnel are divided into the new homes, secondary and rental properties, home furnishing and improvements and research product groups. This structure allows our sales and marketing personnel to gain expertise with a specific subset of customers within the market sectors that we target, and to effectively design and market tailored services to customers within each subset.

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.

Because sales of online marketing services are highly competitive, we strongly emphasize training programs designed to improve the sales and marketing skills of our staff. We provide three types of training to our sales and marketing personnel: (1) mandatory entrance training for each new sales and marketing employee during a three-month probationary period, (2) rotation training that aims to rotate every sales and marketing employee in different posts for a certain period of time, and (3) regular training in which weekly seminars and case studies are conducted for sales and marketing personnel. Our combination of training, performance-based compensation and a merit based promotion system have been effective in identifying, motivating and retaining strong performers.

We also have key account sales representatives in Beijing that serve our approximately 171 key account customers, which are identified based on their reputation, the scope of their operations as well as the amount of their contracts with us. We appoint one designated contact person to serve each key account customer. Key account customers in our new home business are generally entitled to more benefits than our other customers, such as preferential service fee discounts and preferential positioning within our nationwide real estate listings. We also prepare press release and reports for our key account customers.

Information Technology Systems and Infrastructure

We maintain most of our servers and backup servers in Beijing and Shanghai. 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 over the past 14 years.

To better serve our website visitors, we have utilized our key proprietary technologies and developed a technology platform that is specifically used for our real estate and home related Internet portal 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. Our distributed architecture uses 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 also developed a proprietary anti-fraud and anti-spam system through which we are able to detect fraudulent activities and identify and filter spam messages. We attempt to continuously improve the accuracy and effectiveness of this technology through machine-learning capability and customizable rules.

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 advertising and marketing activity 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. In contrast, the third quarter of each year generally contributes the largest portion of our annual revenues due to increased advertising and marketing activity of our customers in the PRC real estate industry as most property purchases take place in September and October of each year in terms of monthly transaction volumes. See “Item 3.D. Key Information—Risk Factors—Risks related to our business—You should not rely on our quarterly operating results as an indication of our future performance because our quarterly financial results are subject to fluctuations.”

Competition

We face competition from other companies in each of our primary business activities. We compete with these companies principally on the basis of website traffic volume, the quality and quantity of real estate and home furnishing and improvement listings and other information content, geographic coverage, service offerings and listing, marketing and e-commerce customers. We also compete for qualified employees with sales, real estate, home furnishing and improvement and other home-related products and services and Internet industry experience. We monitor our market share in the online advertising industry in China through market information gathered internally as well as from independent market research institutions such as Analysys and Talkingdata. Due to the nature of online residential real estate listings and the fact that the PRC market for residential real estate is a developing industry, there is limited independent third-party information on the market share of websites and mobile apps that provide residential real estate listings. To help assess our competitiveness and market position, our listing services division gathers information on the number and prices of paid online listing subscription accounts and similar information on our competitors from public sources for our internal records. Based on these internal records, we believe we are currently one of the leading Internet portals for residential real estate listings in China.

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 Internet portals, such as Sina.com and Sohu.com, which provide real estate and home furnishing and improvement information services, may have an advantage over us due to their more established brand name, larger user base and extensive Internet distribution channels.

Other existing and potential competitors primarily include:

- real estate and home furnishing and improvement websites and mobile apps offering listing and marketing services in China including real estate websites and mobile apps sponsored or supported by local governments in China, which may be able to use such government connections to develop relationships with locally-active real estate developers;
- traditional advertising media such as general-purpose and real estate-focused newspapers, magazines, television and outdoor advertising that compete for overall advertising spending;
- websites and mobile apps focused on real estate research services in China; and
- online listing service providers, including general-purpose Internet portals and regional websites and mobile apps dedicated to online listing. We believe the key players in the markets for online real estate marketing and listing services in China include E-House (China) Holdings, Sohu.com Inc.'s focus.cn, Leju Holdings Limited, Tencent's fangqq.com, 58.com, Anjuke.com (acquired by 58.com in March 2015), Szhome.com and House365.com.

Although the barriers to entry for establishing many types of Internet-based businesses are low, we believe that certain key features of our marketing and listing businesses, together with the complexity of China's real estate and home-related markets, make it difficult for competitors to grow quickly and compete successfully against us. Specifically, we believe our brand name in China's real estate and home related Internet industry, the size and growth of our average daily user traffic, our customized listing, marketing, e-commerce, financial and other value added service offerings, our ownership of what we believe is one of the largest online real estate listing databases in China in terms of geographical coverage, including content coverage of more than 651 urban real estate markets in China as of December 31, 2017, and our relationships and in-depth knowledge of the real estate and home furnishing and improvement sectors provide us with an advantage over our competitors.

In addition to Internet based competitors, as we develop our transaction and financing businesses, we believe we will be increasingly competing with conventional real estate brokerage companies and financing companies that focus on providing financing to home buyers. As we are new to the real estate brokerage and financing businesses, many of our competitors have longer operating history, more established and extensive sales network and larger geographic coverage than us. Some of these market participants are also customers of our listing and marketing services. Our competition with them has affected and may continue to affect adversely our business relationships with them.

We believe that we and other domestic operators are likely to have a competitive advantage over international service providers who lack operational infrastructure and experience in China. We cannot assure you, however, that this competitive advantage will continue to exist, particularly if international operators establish joint ventures with, form alliances with or acquire domestic operators.

Intellectual Property

Our copyrights, trademarks, trade secrets, domain names and other intellectual property are important to our business. We rely on intellectual property laws and contractual arrangements with our key employees and certain of our customers, collaborators and others to protect our intellectual property rights. Despite these measures, we cannot assure you that we will be able to prevent unauthorized use of our intellectual property, which would adversely affect our business.

Our applications for the “SouFun” trademark for certain industry categories in China conflict with existing registrations of or applications for similar trademarks, which have resulted in litigations. In April 2014, the Higher People’s Court of Beijing Municipality reversed a lower court’s judgment in favor of us and ordered the PRC Trademark Review and Adjudication Board of SAIC to reconsider another PRC company’s trademark application for “SOFANG” that it had previously rejected. In April 2015, the Supreme People’s Court of the PRC accepted our application for retrial over the judgment of the Higher People’s Court of Beijing Municipality but ultimately denied our application. See “Item 3.D. Key Information—Risk Factors—Risks related to our business—Unauthorized use of our intellectual property by third parties, and the expenses incurred in protecting our intellectual property rights, may materially and adversely affect our business, financial condition, results of operations, reputation and competitive advantage” and “—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.” In 2015, we obtained new trademarks “Fang.com” in English and “房天下” (“Fang Tian Xia” in Chinese) and began to market our services under these new brands in connection with the transformation of our business model. We therefore do not currently expect our business would be materially and adversely affected even if we lose the right to use the trademark relating to “SouFun” in certain limited industry categories.

As of December 31, 2017, we held 230 registered copyrights and owned or licensed 357 registered trademarks in China. As of the same date, we had 268 trademark applications in various industry categories, pending with the PRC Trademark Office.

We have also filed applications to register certain trademarks in a number of other jurisdictions, including Hong Kong, Macao, Taiwan, Canada, Australia, France, Japan, Singapore, Spain, the United Kingdom and the United States.

As of December 31, 2017, we owned or licensed 1,076 registered domain names, including our official website, www.fang.com, and domain names registered in connection with www.jiatx.com, www.landlist.cn and www.fangtx.com.

As of December 31, 2017, we had four registered patents and one patent application relating to database maintenance and computer data backup under review by the State Intellectual Property Office of the PRC.

Facilities

Our principal executive offices are located at Block A, No. 20 Guogongzhuang Middle Street, Fengtai District, Beijing 100070, the People’s Republic of China, with approximately 69,313 sq.m. of office space. As of December 31, 2017, we leased or owned properties with an aggregate gross floor area of approximately 77,484 sq.m. for our local offices across China. Our leased properties mainly consist of office premises, all of which are leased from independent third parties. We believe our existing leased and owned premises are adequate for our current business operations and that additional space can be obtained on commercially reasonable terms to meet our future requirements. See “Item 3.D. Key Information—Risk Factors—Risks related to our business—Certain of our leased property interests may be defective and we may be forced to relocate operations affected by such defects, which could cause significant disruption to our business.”

We own an office building with a total usable office space of approximately 69,313 sq.m. in Beijing as our headquarters.

We own an office building with a gross floor area of 325,000 square feet at 72 Wall Street, New York. It is currently under major refurbishment work.

We own certain commercial properties of approximately 3,111 sq.m and 22,064.8 sq.m, in Sanya, Hainan province and Wuhan, Hubei province, China, respectively. We also own office space of 46,628 sq.m, together with 373 parking spaces, in an office building in Chengdu, Sichuan province, 1264.67 sq.m, in an office building in Changzhou, Jiangsu province, as well as office space of 26,870.58 sq.m in an office building in Chongqing. We primarily use these properties as our local offices.

We own certain Meilin lake villa properties of 10,308.58 sq.m. in Guangzhou, Guangdong province, China.

In addition, we own a portion of a building known as the BaoAn Building located at 800 Dongfang Road, Pudong, Shanghai. The property has usable space of approximately 42,000 sq.m. and is currently used for offices, retail space and a hotel. We acquired the property to support our expansion in Shanghai and the East China region, which consists of 15 cities including Jiangsu provincial capital Nanjing and Zhejiang provincial capital Hangzhou.

We also purchased a total net rentable area of 264,964 square feet in an office building in San Francisco. Our San Francisco office is primarily used as our technology and research center in the US.

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 PRC laws, rules and regulations. We do not maintain insurance policies covering losses relating to our systems and do not have business interruption insurance.

Legal Proceedings

We are currently not involved in any material legal or arbitration proceedings. From time to time, we may be subject to claims and legal actions arising in the ordinary course of business, such as intellectual property infringement claims against us for use of others' articles or photographs and employment disputes. Such claims or legal actions, even if without merit, could result in the expenditure of significant financial and management resources and potentially result in civil liability for damages.

Regulation

Our business is subject to substantial regulation by the PRC government. This section sets forth a summary of certain significant PRC regulations that affect our business and the industries within which we operate. See "Item 3.D. Key Information—Risk Factors" which discusses risks related to regulation of our business and industry.

General

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

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

- formulating and enforcing telecommunications industry policy, standards and regulations;
- granting licenses to provide telecommunications and Internet services;
- formulating tariff and service charge policies for telecommunications and Internet services;
- supervising the operations of telecommunications and Internet service providers; and
- maintaining fair and orderly market competition among operators.

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

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

Restrictions on Foreign Ownership in the Online Advertising Industry

Internet Content Provision and Wireless Value-Added Services

In September 2000, the State Council promulgated the Telecommunications Regulations, which categorize all telecommunications businesses in China as either basic telecommunications businesses or value-added telecommunications businesses. In February 2003, MIIT amended the original classification of telecommunications business with Internet content provision services and wireless value-added services being classified as value-added telecommunications businesses. In December 2015, MIIT further amended the classification of telecommunications business, which sets out in details of the information service business classification under the category of value-added telecommunications businesses. The Telecommunications Regulations also set forth extensive guidelines with respect to different aspects of telecommunications operations in China.

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

In July 2006, MIIT publicly released the MIIT Notice, which reiterates certain provisions under the 2002 Administrative Rules on Foreign-invested Telecommunications Enterprises. According to the MIIT Notice, if any foreign investor intends to invest in a PRC telecommunications business, a foreign-invested telecommunications enterprise must be established and such enterprise must apply for the relevant telecommunications business licenses. Under the MIIT Notice, domestic telecommunications enterprises may not rent, transfer or sell a telecommunications license to foreign investors in any form, nor may they provide any resources, premises, facilities and other assistance in any form to foreign investors for their illegal operation of any telecommunications business in China.

As a result of current PRC laws, rules and regulations that impose substantial restrictions on foreign investment in the Internet business in China, we conduct this portion of our operations through a series of contractual arrangements among our PRC subsidiaries and our consolidated controlled entities.

In the opinion of our PRC legal counsel:

- each of the Structure Contracts is legal, valid and binding on the contracting parties under applicable PRC laws, rules and regulations;
- the execution, delivery, effectiveness, enforceability and performance of each of the Structure Contracts do not violate any published PRC laws, rules and regulations currently in force and effect;
- none of our Structure Contracts contravenes any published PRC laws, rules and regulations currently in force and effect; and
- no filings, registrations, consents, approvals, permits, authorizations, certificates and licenses of any PRC government authorities are currently required in connection with the execution, delivery, effectiveness, performance and enforceability of each Structure Contract, provided that the pledges of equity interests under the Structure Contracts should be registered with competent PRC government authorities, and provided further that the exercise of the call option in the future must be approved and registered by competent PRC government authorities.

However, there are substantial uncertainties regarding the interpretation and application of current or future PRC laws, rules and regulations, including the laws and regulations governing the enforcement and performance of our Structure Contracts in the event of any imposition of statutory liens, bankruptcy and criminal proceedings. Accordingly, we cannot assure you that the PRC regulatory authorities will not ultimately take a contrary view from that of our PRC legal counsel. See “Item 3.D. Key Information—Risk Factors—Risks related to our corporate structure—If the PRC government determines that the structure contracts that establish the structure for our business operations do not comply with applicable PRC laws, rules and regulations, we could be subject to severe penalties or be forced to restructure our ownership structure” and “—Substantial uncertainties exist with respect to the interpretation and application of PRC laws relating to our corporate structure, corporate governance and business operations.”

Regulation Relating to Our Business

Internet Content Provision Services

The provision of real estate and home-related and other content on Internet websites is subject to applicable PRC laws, rules and regulations relating to the telecommunications industry and the Internet, and regulated by various government authorities, including MIIT and SAIC. The principal regulations governing the telecommunications industry and the Internet include:

- The Telecommunications Regulations (Revised in 2016);
- The Catalog of Classes of Telecommunications Business;
- The Administrative Measures for Telecommunications Business Operating Licenses (2017); and
- The Internet Information Services Administrative Measures.

Under these regulations, Internet content provision services are classified as value-added telecommunications businesses, and a commercial operator must obtain a telecommunications and information services operating license, or ICP license, from the appropriate telecommunications authority in order to carry out commercial Internet content provision operations in China. If an Internet content provider is not engaged in commercial Internet content operations, it is only required to file a record with the appropriate telecommunications authority. In addition, the regulations also provide that operators involved in Internet content provision in sensitive and strategic sectors, including news, publishing, education, health care, medicine and medical devices, must obtain additional approvals from the relevant authorities in relation to those sectors.

Four of our consolidated controlled entities, Beijing Internet, Beijing China Index, Beijing Technology and Beijing JTX Technology, each hold an ICP license issued by the Beijing Telecommunications Administration Bureau, a municipal branch of MIIT.

On December 21, 2013, the State Council promulgated the Decision of the State Council on Temporary Adjustments to the Administrative Approval Items or Special Administrative Measures on Access Prescribed in the Relevant Administrative Regulations or State Council’s Documents in China (Shanghai) Pilot Free Trade Zone, which provides that temporary adjustments shall be made to special administrative measures on access in respect of qualification requirements and restrictions on shareholding proportion under the Administrative Rules on Foreign-invested Telecommunications Enterprises.

Pursuant to the Opinions of the MIIT and the People’s Government of Shanghai Municipality on Further Opening Up Value-added Telecommunications Business in China (Shanghai) Pilot Free Trade Zone (“Pilot Opinions”), which were jointly issued by the MIIT and People’s Government of Shanghai Municipality on January 6, 2014, foreign ownership in telecommunications service business (only include apps stores), which China has committed to opening-up after its WTO entry, may exceed 50% on a pilot basis. Foreign ownership in online data processing and transaction processing (operational electronic commerce) shall not exceed 55%. Except for the Internet connection service business (provision of internet connection service for online users), the scope for other businesses services specified by the Pilot Opinions can be nationwide. On April 15, 2014, MIIT promulgated the Circular on Printing and Distributing the Administrative Measures of China (Shanghai) Pilot Free Trade Zone for the Pilot Operation of Value-added Telecommunications Business by Foreign Investment, which further provides the requirements and procedures for foreign-invested enterprises to apply for and obtain the approval to conduct value-added telecommunications business based in the China (Shanghai) Pilot Free Trade Zone.

On June 19, 2015, MIIT further issued the Circular of the MIIT on Removing the Restrictions on Shareholding Ratio Held by Foreign Investors in Online Data Processing and Transaction Processing (Operational E-commerce) Business, which liberalizes the foreign ownership restrictions in online data processing and transaction processing (operational electronic commerce) business by expanding the business areas from the China (Shanghai) Pilot Free Trade Zone to nationwide, and the foreign ownership may be up to 100%.

The MIIT Notice requires that a value-added telecommunications business operator (or its shareholders) must own domain names and trademarks used by it in the value-added telecommunications business, and have premises and facilities appropriate for such business. To comply with the MIIT Notice, all of our related trademarks and domain names are owned directly by Beijing Internet, Beijing China Index, Beijing Technology and Beijing JTX Technology.

Furthermore, according to the Administrative Provisions on Online Publishing Services, jointly issued by the MIIT and the State General Administration of Press, Publication, Radio, Film and Television in February 2016, all entities that are engaged in Internet publication services in China must be approved by competent publication administrative department and acquire an Online Publishing Service License. The online publishing services defined in the Administrative Provisions on Online Publishing Services refer to the provision of online publications to the public through information networks while the Online Publications refer to digitized works with characteristics of publishing, such as editing, production or processing provided to the public through information networks.

Advertising Services

SAIC is responsible for regulating advertising activities in China. The principal regulations governing advertising in China, including online advertising, include:

- the Advertising Law (Revised in 2015); and
- the Administration of Advertising Regulations.

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

The business scope of each of Beijing Advertising, Beijing Technology, Beijing JTX Technology, Shanghai Advertising, Beijing China Index, Beijing Internet and Beijing Yi Ran Ju Ke includes operating an advertising business, which allows them to engage in the advertising business.

Electronic Bulletin Board Services

In October 2000, MIIT adopted the Administrative Regulations on Internet Electronic Bulletin Board Services, which required that an Internet content service provider providing online bulletin board service register with, and obtain approval from, local telecommunications authorities. The Administrative Regulations on Internet Electronic Bulletin Board Services was abolished by MIIT on September 23, 2014, and the management of Internet electronic bulletin board services is currently governed by the Telecommunications Regulations, the Internet Information Services Administrative Measures and the Administrative Measures for Telecommunications Business Operating Licenses, which provide that an Internet content provider that intends to provide online bulletin board services shall fulfill the approval formalities. Currently, Beijing China Index is operating electronic bulletin board services on www.landlist.cn and Beijing Technology on www.fang.com. On November 11, 2005 and November 6, 2006, the Beijing Telecommunications Administration Bureau issued to Beijing China Index and Beijing Technology, respectively, an approval for operating electronic bulletin board services on www.landlist.cn and www.fang.com, respectively. Beijing JTX Technology also obtained approval for operating electronic bulletin board services on www.jiatx.com on June 15, 2007. These approvals each have an original validity which is keyed to the corresponding ICP license and their continued validity is subject to the fulfillment of certain conditions and qualifications.

Regulations on the Real Estate Service Industry

The principal regulations governing the real estate service industry in China include the Law on the Administration of the Urban Real Estate, as amended in August 2009, the Real Estate Brokerage Administration Measures issued by the MOHURD, the NDRC, and the PRC Ministry of Human Resources and Social Security on January 20, 2011, which became effective on April 1, 2011, and was further amended on March 1, 2016 and became effective on April 1, 2016.

Real Estate Service Companies

In accordance with the Law on the Administration of the Urban Real Estate and the Real Estate Brokerage Administration Measures, real estate services refer to services of real estate consultation, appraisal and brokerage. A real estate service company is required to meet certain financial and personnel requirements and register with the SAIC or its local counterpart. To be qualified to engage in real estate services, a company is required to file with the relevant local branch of SAIC. Pursuant to the Real Estate Brokerage Administration Measures, a real estate brokerage company must have a certain number of real estate brokers and real estate broker assistants, and shall file with the local real estate regulatory authority within thirty days following the issuance of its business license. Local authorities have specific requirements on employing such brokers and the registration formalities.

On May 11, 2011, the MOHURD and the NDRC jointly issued the Notice of Strengthening the Real Estate Brokerage Administration and Further Standardizing the Order of Real Estate Transactions. On June 13, 2013, the MOHURD and the SAIC jointly issued the Notice of Focusing on Special Administration on Market of Real Estate Agencies. According to these notices, a real estate brokerage company is forbidden to display any false or unverified information. The real estate brokerage company and its brokers shall not conceal transaction price and other transaction information from the transacting parties. Such entities are also prohibited from obtaining any gains by purchasing or renting a property at a lower price and then selling or leasing such property at a higher price. The real estate brokerage company is also required to establish a separate account for transaction settlement if the real estate brokerage company is responsible to collect and pay the transaction amount on behalf of the transaction parties.

Real Estate Service Brokers

In accordance with the Real Estate Brokerage Administration Measures, the PRC government implemented the occupational qualification system for real estate broker personnel.

Pursuant to the Interim Regulations on Professional Qualification for Real Estate Brokerage Professionals and the Implementation Rules on the Examinations of Real Estate Brokerage Professional Qualification issued by the PRC Ministry of Human Resources and Social Security and the MOHURD on December 18, 2001 and the relevant circulars, to practice as a qualified real estate broker, an individual was required to pass an exam and obtain a qualification certificate for real estate brokers. However, the State Council issued the Decision of the State Council on Cancelling and Adjusting a Batch of Administrative Examination and Approval Items on July 22, 2014, which eliminated the qualification certificate requirement for real estate brokers. On June 25, 2015, the PRC Ministry of Human Resources and Social Security and the MOHURD further jointly issued Interim Provisions on the Occupational Qualification System of Professional Real Estate Brokers and the Implementing Measures for Occupational Qualification Exams of Professional Real Estate Brokers, which provide that real estate brokerage professional qualifications are divided into three levels, namely associate real estate broker, real estate broker and senior real estate broker. The associate real estate broker and real estate broker shall pass the examination as a method to evaluate their professional skills.

Real Estate Service Charges

According to the Notice on Release of Management of Real Estate Consultant and Brokerage Charges jointly issued by the NDRC and the MOHURD which became effective on July 1, 2014, a real estate service company must display its service charges, or commissions. The commissions for the real estate brokerage services are subject to the regulation of the local branch of the MOHURD and the competent pricing department of people's government at the provincial level, the local authorities may decide to apply "government-guided" prices or "market-adjusted" prices according to the local situation. The commissions for the real estate consulting services shall be based on "market-adjusted" prices, and the real estate consulting service providers may negotiate and determine their commission rates with clients.

Regulations on Microfinance Companies

According to the Guiding Opinions on the Pilot Operation of Microfinance Companies (the "Guiding Opinions") jointly issued by the China Banking Regulatory Commission and the PBOC on May 4, 2008, microfinance companies are limited liability companies or joint stock companies established with the capital contribution from natural persons, legal persons and other organizations, which do not accept public deposits and engage in the microfinance business. To set up a microfinance company, an applicant shall submit a formal application to the competent administrative departments at the provincial level. Upon approval, the applicant shall apply to the local branch of the SAIC to obtain a business license for the microfinance company. In addition, the applicant shall complete certain filings with the local police department, the local office of the China Banking Regulatory Commission and the local branch of the PBOC. According to the Guiding Opinions, the aggregate balance of the loans granted to any single borrower may not exceed 5% of the net capital of the microfinance company. The PBOC is responsible for monitoring the interest rates and fund flows of microfinance companies and record the relevant information into the PBOC's credit information system. Microfinance companies are required to provide information regarding their borrowers, loan amounts, guarantees for loans and loan repayment to the credit information system.

According to the Guiding Opinions, a provincial government may launch pilot programs for microfinance companies within prefectural regions of the province only after it designates a department (finance office or other relevant institutions) to be in charge of supervision and administration of microfinance companies and is willing to be responsible for risk management and disposals with respect to microfinance companies. Consequently, microfinance companies are primarily regulated locally by provincial governments under rules and regulations promulgated by the provincial governments.

Pursuant to Notice on Regulating the "Cash Loan" Business, issued by Office of the Leading Group for the Special Campaign against Internet Financial Risks and the Office of the Leading Group for the Special Campaign against Peer-to-peer Lending Risks on December 1st, 2017 ("Notice on Regulating Cash Loan"), internet microfinance businesses are strictly regulated. According to the Notice on Regulating Cash Loan, among other requirements, microfinance companies are required to suspend distribution of internet microloans that are not supported by specific scenarios and no specific purpose, gradually reduce the inventory business within a time limit and rectification shall be completed within the prescribed time limit. Issuing "campus loans" and "down payment loans" are also prohibited.

According to Notice on Regulating Cash Loan, microfinance companies may not sell, transfer, and disguise the company's credit assets through Internet platforms or local trading venues. Providing real property financing and other debt financing matchmaking services in relation to the purchase of real properties are also prohibited. Violation of these requirements may subject the relevant authorities to various penalties, including restrictions on the entity conducting such activities' business operations, or canceling business qualifications and/or closing the entity.

Regulations on Entrusted Loans

The General Lending Code was promulgated by the PBOC on June 28, 1996 and came into effect on August 1, 1996. The General Lending Code defines a "loan provider" as a PRC owned financial institution established in China that engages in the provision of interest bearing loans. One type of loan defined in and regulated in accordance with the General Lending Code is the entrusted loan. Entrusted loans are arrangements whereby the capital for a loan is supplied by a government department, an enterprise or a natural person (the "capital provider") and entrusted to a financial institution as the loan provider. Entrusted loans are made by the loan provider to a specified borrower for a particular purpose and in an amount, for a term and at an interest rate determined by the capital provider. The term "specified borrower" describes the party specified by the capital provider as the person who will receive the amount of an entrusted loan (the "loan recipient"). While the loan provider exercises supervision over and receives repayment from the loan recipient, the loan provider does not assume any risk of default in repayment by the loan recipient. In accordance with the General Lending Code and the relevant judicial interpretation from the Supreme People's Court of the PRC, in an entrusted loan arrangement, the relationship between the loan provider and the capital provider is that of trustee and trustor; and the relationship between the loan provider and the loan recipient is that of lender and borrower. No creditor/debtor relationship exists between the capital provider and the loan recipient. The General Lending Code requires that loan providers must be authorized by and have been granted a financial institution license or a financial institution operation license from the PBOC; and must have registered with the SAIC. The General Lending Code further stipulates that enterprises which are not authorized and registered as loan providers must not breach the laws of the PRC by engaging in intercompany loan transactions or the provision of loans through unauthorized means. An intercompany loan is a loan provided directly from one company to another where the loan provider is not authorized and registered as a loan provider.

According to the Opinions of the Ministry of Housing and Urban-Rural Development and other Authorities on Strengthening the Administration Over the Real Estate Agencies to Promote the Healthy Development of the Industry issued by the MOHURD, the MIIT, the SAT, the SAIC, the PRC National Development and Reform Commission, the CSRC and the PBOC on July 29, 2016, real estate service companies, which prepare the housing loan applications on behalf of clients, shall not compel clients to choose financial institutions designated by them, nor shall they associate the loan application services with other services. A real estate service company shall not, by itself or cooperating with other entities, offer illegal financial products and services, or receive any commissions from financial institutions. In addition, financial institutions are strictly prohibited from cooperating with real estate service companies which have not gone through the filing formalities with competent real estate authorities.

Pursuant to Notice on Regulating the "Cash Loan" Business, issued by Office of the Leading Group for the Special Campaign against Internet Financial Risks and the Office of the Leading Group for the Special Campaign against Peer-to-peer Lending Risks on December 1st, 2017 ("Notice on Regulating Cash Loan"), internet microfinance businesses shall be under strictly regulated. According to the Notice on Regulating Cash Loan, among other requirements, microfinance companies are required to suspend distribution of internet microloans that are not supported by specific scenarios and no specific purpose, gradually reduce the outstanding loan balance within the prescribed time limit and rectification shall be completed within the prescribed time limit. Issuing "campus loans" and "down payment loans" are also prohibited.

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

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

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

The Ministry of Public Security has also promulgated measures that prohibit the use of the Internet in ways that, among other things, result in the leakage of government secrets or the spread of socially destabilizing content. The Ministry of Public Security has supervision and inspection powers in this regard, and we may be subject to the jurisdiction of the local security bureaus. If an ICP license holder violates these measures, the PRC government may revoke its license and shut down its website.

The security and confidentiality of information on the identity of Internet users are also regulated in China. The Internet Information Service Administrative Measures promulgated by the PRC State Council in September 2000 and revised in January 2011 require Internet content service providers to maintain an adequate system that protects the security of user information. In December 2005, the Ministry of Public Security promulgated the Regulations on Technical Measures of Internet Security Protection, requiring Internet service providers to utilize standard technical measures for Internet security protection. We have been advised by our PRC legal counsel that both requirements are for the protection of information on the identity of Internet users.

Regulations relating to Trademarks

Both the PRC Trademark Law and the Implementation Regulation of the PRC Trademark Law, as currently in effect, provide protection to the holders of registered trademarks and trade names. The PRC Trademark Office handles trademark registrations and grants a renewable term of rights of 10 years to registered trademarks. In addition, trademark license agreements must be filed with the Trademark Office.

After receiving a trademark registration application, the PRC Trademark Office will make a public announcement with respect to the proposed trademark registration application if the relevant trademark passes the preliminary examination. Any person may, within three months after such public announcement, object to such trademark application. The PRC Trademark Office will then decide who is entitled to the trademark registration, and its decisions may be appealed to the PRC Trademark Review and Adjudication Board, whose decision may be further appealed through judicial proceedings. If no objection is filed within three months after the public announcement period or if the objection has been overruled, the PRC Trademark Office will approve the registration and issue a registration certificate, upon which the trademark is registered and will be effective for a renewable 10-year period, unless otherwise revoked.

Regulations relating to Employee Share Options

Under the Stock Option Rule promulgated by SAFE in February 2012, a PRC entity's directors, supervisors, senior management officers, other staff or individuals who have an employment or labor relationship with a Chinese entity and are granted stock options by an overseas publicly listed company are required, through a PRC agent or PRC subsidiary of such overseas publicly listed company, to register with SAFE and complete certain other procedures. We and our PRC resident employees who have been granted stock options are subject to these regulations. We have designated our PRC relevant subsidiaries to handle the registration and other procedures required by the Stock Option Rule. If we or our PRC option holders fail to comply with these regulations in the future, we or our PRC option holders may be subject to fines and legal sanctions.

Regulations relating to Employees

Pursuant to the PRC Labor Law and the PRC Labor Contract Law, employers must execute written labor contracts with full-time employees. All employers must compensate their employees with wages equal to at least the local minimum wage standards. All employers are required to establish a system for labor safety and sanitation, strictly abide by state rules and standards and provide employees with workplace safety training. Violations of the PRC Labor Contract Law and the PRC Labor Law may result in the imposition of fines and other administrative liabilities. Criminal liability may arise for serious violations.

In addition, employers in China are obliged to provide employees with welfare schemes covering pension insurance, unemployment insurance, maternity insurance, work-related injury insurance, medical insurance and housing funds.

Regulations relating to Foreign Investment in Value-Added Telecommunications Industry

According to the Administrative Rules on Foreign-invested Telecommunications Enterprises issued by the State Council effective in January 2002, as amended in September 2008 and February 2016, a foreign investor may hold no more than a 50% equity interest in a value-added telecommunications services provider in China and such foreign investor must have experience operating in such industry.

Pursuant to the Opinions of the MIIT and the People's Government of Shanghai Municipality on Further Opening Up Value-added Telecommunications Business in China (Shanghai) Pilot Free Trade Zone ("Pilot Opinions"), which were jointly issued by the MIIT and People's Government of Shanghai Municipality on January 6, 2014, foreign ownership in telecommunications service business (only include apps stores), which China has committed to opening-up after its WTO entry, may exceed 50% on a pilot basis. Foreign ownership in online data processing and transaction processing (operational electronic commerce) shall not exceed 55%. Except for the Internet connection service business (provision of internet connection service for online users), the scope for other businesses services specified by the Pilot Opinions can be nationwide. On April 15, 2014, MIIT promulgated the Circular on Printing and Distributing the Administrative Measures of China (Shanghai) Pilot Free Trade Zone for the Pilot Operation of Value-added Telecommunications Business by Foreign Investment, which further provides the requirements and procedures for foreign-invested enterprises to apply for and obtain the approval to conduct value-added telecommunications business based in the China (Shanghai) Pilot Free Trade Zone.

On June 19, 2015, MIIT further issued the Circular of the MIIT on Removing the Restrictions on Shareholding Ratio Held by Foreign Investors in Online Data Processing and Transaction Processing (Operational E-commerce) Business, which liberalizes the foreign ownership restrictions in online data processing and transaction processing (operational electronic commerce) business by expanding the business areas from the China (Shanghai) Pilot Free Trade Zone to nationwide, and the foreign ownership may be up to 100%.

The MIIT Notice requires that a value-added telecommunications business operator (or its shareholders) must own domain names and trademarks used by it in the value-added telecommunications business, and have premises and facilities appropriate for such business. To comply with the MIIT Notice, all of our related trademarks and domain names are owned directly by Beijing Internet, Beijing China Index, Beijing Technology and Beijing JTX Technology.

Regulations relating to the Establishment of Offshore Special Vehicle by PRC Residents

Pursuant to the Circular 37 promulgated by SAFE, which became effective on July 4, 2014, a PRC resident, including a PRC resident natural person or a PRC company, shall register with the local SAFE branch before it contributes assets or its equity interests into an overseas SPV established or controlled by the PRC resident for the purpose of investment and financing. When the overseas SPV that fulfilled the initial registration formalities undergoes certain major changes, including but not limited to, the change in the PRC-resident shareholder of the overseas SPV, name of the overseas SPV, term of operation, or any increase or reduction of the registered capital of the overseas SPV, share transfer or swap, and merger or division, the PRC resident shall timely register such change with the local SAFE branch.

C. Organizational Structure

We conduct substantially all of our operations in China through our PRC subsidiaries and consolidated controlled entities. For more information regarding the contractual arrangements among our PRC subsidiaries and consolidated controlled entities, see "Item 7.B. Major Shareholders and Related Party Transactions—Related Party Transactions—Structure Contracts."

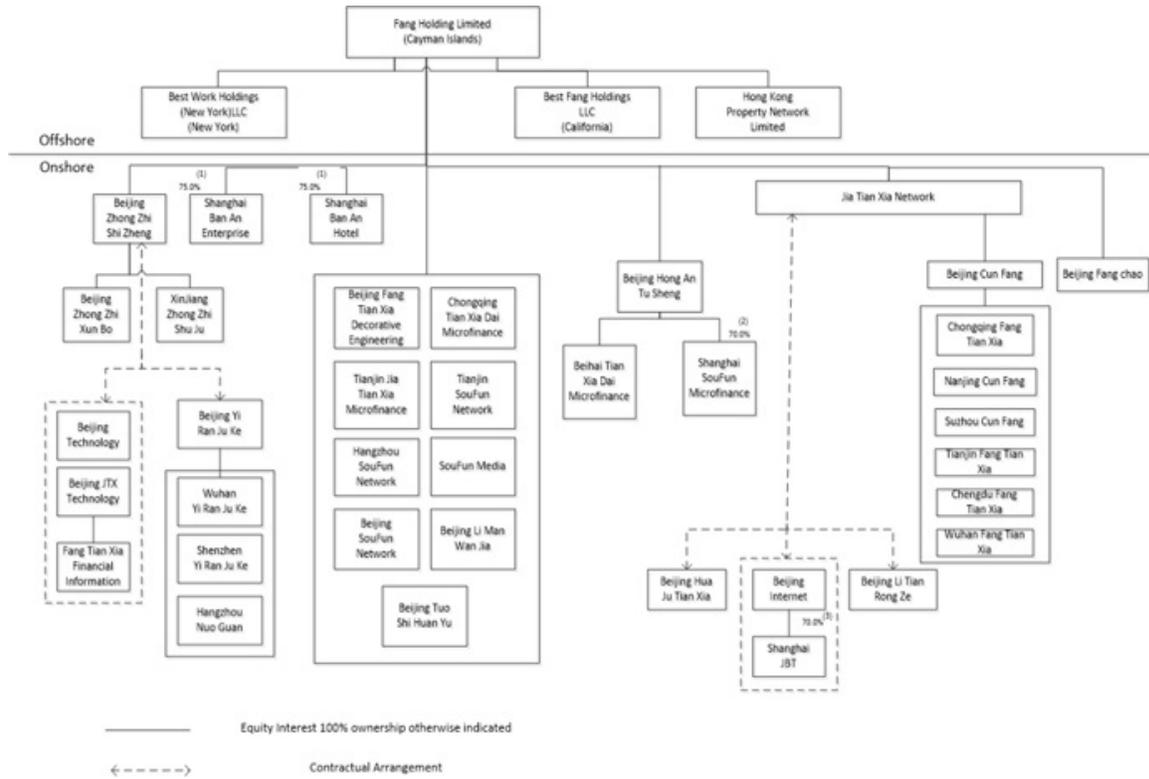
The following is a list of our principal subsidiaries and consolidated controlled entities as of the date of this annual report:

Name	Place of Formation	Relationship
Beijing Cun Fang Real Estate Broking Co., Ltd. ("Beijing Cun Fang")	China	Wholly-owned subsidiary
Beijing Fang Chao Real Estate Broking Co., Ltd. ("Beijing Fang Chao")	China	Wholly-owned subsidiary
Beijing Fang Tian Xia Decorative Engineering Co., Ltd. ("Beijing Fang Tian Xia Decorative Engineering")	China	Wholly-owned subsidiary
Beijing Hong An Tu Sheng Network Technology Co., Ltd. ("Beijing Hong An")	China	Wholly-owned subsidiary
Beijing Li Man Wan Jia Network Technology Co., Ltd. ("Beijing Li Man Wan Jia")	China	Wholly-owned subsidiary
Beijing SouFun Network Technology Co., Ltd. ("Soufun Network")	China	Wholly-owned subsidiary
Beihai Tian Xia Dai Microfinance Co., Ltd. ("Beihai Tian Xia Dai Microfinance")	China	Wholly-owned subsidiary
Beijing Tuo Shi Huan Yu Network Technology Co., Ltd. ("Beijing Tuo Shi")	China	Wholly-owned subsidiary
Beijing Zhong Zhi Shi Zheng Information Technology Co., Ltd. ("Beijing Zhong Zhi Zheng")	China	Wholly-owned subsidiary
Beijing Zhong Zhi Xun Bo Information Technology Co., Ltd. ("Beijing Zhong Zhi Xun Bo")	China	Wholly-owned subsidiary
Xinjiang Zhong Zhi Shu Ju Information Technology Co., Ltd. ("Xinjiang Zhong Zhi Shu Ju")	China	Wholly-owned subsidiary
Best Work Holdings (New York) LLC	United States	Wholly-owned subsidiary
Best Fang Holdings LLC	United States	Wholly-owned subsidiary
Chengdu SouFun Fang Tian Xia Real Estate Broking Co., Ltd. ("Chengdu Fang Tian Xia")	China	Wholly-owned subsidiary
Chongqing Fang Tian Xia Real Estate Broking Co., Ltd. ("Chongqing Fang Tian Xia")	China	Wholly-owned subsidiary
Chongqing Tian Xia Dai Microfinance Co., Ltd. ("Chongqing Tian Xia Dai Microfinance")	China	Wholly-owned subsidiary

Name	Place of Formation	Relationship
Guangzhou Fang Tian Xia Real Estate Broking Co., Ltd. (“Guangzhou Fang Tian Xia”)	China	Wholly-owned subsidiary
Hangzhou Ji Ju Real Estate Agents Co., Ltd. (“Hangzhou Ji Ju”)	China	Wholly-owned subsidiary
Hangzhou SouFun Network Technology Co., Ltd. (“Hangzhou SouFun Network”)	China	Wholly-owned subsidiary
Hong Kong Property Network Limited	Hong Kong	Wholly-owned subsidiary
Nanchang Cun Fang Real Estate Broking Co., Ltd. (“Nanchang Cun Fang”)	China	Wholly-owned subsidiary
Nanjing Cun Fang Real Estate Broking Co., Ltd. (“Nanjing Cun Fang”)	China	Wholly-owned subsidiary
Shanghai BaoAn Enterprise Co., Ltd. (“Shanghai BaoAn Enterprise”)	China	Wholly-owned subsidiary
Shanghai BaoAn Hotel Co., Ltd. (“Shanghai BaoAn Hotel”)	China	Wholly-owned subsidiary
Shanghai SouFun Microfinance Co., Ltd. (“Shanghai SouFun Microfinance”)	China	Wholly-owned subsidiary
Shanghai SouFun Fang Tian Xia Broking Co., Ltd. (“Shanghai Fang Tian Xia”)	China	Wholly-owned subsidiary
Shenzhen Fang Tian Xia Real Estate Broking Co., Ltd. (“Shenzhen Fang Tian Xia”)	China	Wholly-owned subsidiary
SouFun Media Technology (Beijing) Co., Ltd. (“SouFun Media”)	China	Wholly-owned subsidiary
Suzhou Cun Fang Real Estate Broking Co., Ltd. (“Suzhou Cun Fang”)	China	Wholly-owned subsidiary
Tianjin Jia Tian Xia Microfinance Co., Ltd. (“Tianjin Jia Tian Xia Microfinance”)	China	Wholly-owned subsidiary
Tianjin Fang Tian Xia Real Estate Broking Co., Ltd. (“Tianjin Fang Tian Xia”)	China	Wholly-owned subsidiary

Name	Place of Formation	Relationship
Tianjin SouFun Network Technology Co., Ltd. ("Tianjin SouFun Network")	China	Wholly-owned subsidiary
Wuhan SouFun Fang Tian Xia Real Estate Broking Co., Ltd. ("Wuhan Fang Tian Xia")	China	Wholly-owned subsidiary
Beijing Century Jia Tian Xia Technology Development Co., Ltd. ("Beijing JTX Technology")	China	Consolidated controlled subsidiary
Beijing Hua Ju Tian Xia Network Technology Co., Ltd. ("Beijing Hua Ju Tian Xia")	China	Consolidated controlled subsidiary
Beijing Li Tian Rong Ze Yi Jia Technology Development Co., Ltd. ("Beijing Li Tian Rong Ze")	China	Consolidated controlled subsidiary
Beijing SouFun Internet Information Service Co., Ltd. ("Beijing Internet")	China	Consolidated controlled subsidiary
Beijing SouFun Science and Technology Development Co., Ltd. ("Beijing Technology")	China	Consolidated controlled subsidiary
Beijing Yi Ran Ju Ke Technology Development Co., Ltd. ("Beijing Yi Ran Ju Ke")	China	Consolidated controlled subsidiary
Fang Tian Xia Financial Information Service Co., Ltd. ("Fang Tian Xia Financial Information")	China	Consolidated controlled subsidiary
Hangzhou Nuo Guan Real Estate Broking Co., Ltd. ("Hangzhou Nuo Guan")	China	Consolidated controlled subsidiary
Shanghai Jia Biao Tang Real Estate Broking Co., Ltd. ("Shanghai JBT Real Estate Broking")	China	Consolidated controlled subsidiary
Shenzhen Yi Ran Ju Ke Real Estate Broking Co., Ltd. ("Shenzhen Yi Ran Ju Ke")	China	Consolidated controlled subsidiary
Wuhan SouFun Yi Ran Ju Ke Real Estate Agents Co., Ltd. ("Wuhan Yi Ran Ju Ke")	China	Consolidated controlled subsidiary

The following diagram illustrates our corporate structure including our principal subsidiaries and consolidated controlled entities as of the date of this annual report:



* The diagram above omits the names of subsidiaries and consolidated affiliated entities that are insignificant individually and in the aggregate.

- (1) Each of Shanghai BaoAn Enterprise and Shanghai BaoAn Hotel is owned as to 25.0% by Shanghai China Index, one of our consolidated controlled entities.
- (2) Shanghai SouFun Microfinance is owned as to 20.0% by Beijing Technology and as to 10.0% by Beijing JTX Technology, both of which are our consolidated controlled entities.
- (3) Shanghai JBT is owned as to 30.0% by Beijing Jia Tian Xia Advertising Co., Ltd. which is our consolidated controlled entity.

D. Property, Plant and Equipment

See “Item 4.B. Information on the Company—Business Overview—Facilities.”

ITEM 4A. UNRESOLVED STAFF COMMENTS

None.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following discussion of our financial condition and results of operations is based upon and should be read in conjunction with our consolidated financial statements and their related notes included elsewhere in this annual report. This discussion contains forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. See “Forward-Looking Statements.” In evaluating our business, you should carefully consider the information provided under “Item 3.D. Key Information—Risk Factors.” We caution you that our businesses and financial performance are subject to substantial risks and uncertainties.

A. OPERATING RESULTS

Overview

We operate the leading real estate Internet portal in China in terms of the number of page views and visitors to our websites in 2017, according to iResearch, an independent market research and consulting company. Our user-friendly websites and mobile apps support active online communities and networks of users seeking information on, and services for, the real estate and home-related sectors in China. Our service offerings include:

- *Listing services:* We offer basic and special listing services on our websites and mobile apps. Our basic listing services are primarily offered to real estate agents, brokers, developers, property owners and managers and suppliers of home furnishing and improvement and other home-related products and services. Our basic listing services allow our customers to post information of their products and services on our websites. Our special listing services offer specialized marketing programs through both online channels and offline themed events. Listing services were our largest source of revenues in 2017.
- *Marketing services:* We offer marketing services on our websites and mobile apps, mainly through advertisements, to real estate developers in the marketing phase of new property developments, as well as to real estate agencies and suppliers of home furnishing and improvement and other home-related products and services who wish to promote their products and services. Marketing services were our second largest source of revenues in 2017.
- *E-commerce services:* Our e-commerce services primarily include Fang membership services, online real estate brokerage services, direct sales services for new homes, online home-decorating services and online sublease services. We provide both free and paid Fang membership services to our registered members. Our free services include primarily regular updates regarding local property developments, tours to visit property developments and other services relating to property purchases. Our paid services primarily include offers to purchase properties at a discount from our partner developers and dedicated information and related services to facilitate property purchases. In August 2014, we launched our direct sales services, whereby we promote and sell properties primarily through our websites and mobile apps to home buyers for a predetermined percentage of fees charged to our developer clients. As part of our effort to develop our transaction platform, we began to offer online real estate brokerage services in January 2015, online home-decorating services and online sublease services in the second quarter of 2015. E-commerce services were our third largest source of revenues in 2017.
- *Financial services:* We provide financial services through our online financial platform, www.fangtx.com, and offline micro loan subsidiaries. We provide primarily secured consumer loans to individuals that meet our credit assessment requirements. We launched financial services in August 2014.
- *Other value-added services:* We provide other value-added services including subscription services for access to our information database and consulting services for customized and industry-related research reports and indices.

We have built a large and active community of users who are attracted by the comprehensive real estate and home-related content available on our portal that forms the foundation of our service offerings. According to Google Analytics, in the fourth quarter of 2017, our website, www.fang.com, received a monthly average of approximately 100 million unique visitors and generated a monthly average of approximately 900 million website visits. We currently maintain approximately 100 offices to focus on local market needs.

Our revenues and net income attributable to our shareholders in 2017 was US\$444.3 million and US\$16.3 million, respectively. Listing, marketing, e-commerce, financial and other value-added services accounted for 37.2%, 33.6%, 19.8%, 2.7% and 6.7%, respectively, of our revenues in 2017.

Key Operating and Financial Performance Metrics

We monitor the key operating and financial performance metrics set forth in the tables below to help us evaluate growth trends, establish budgets, measure the effectiveness of our sales and marketing efforts and assess our operational efficiencies.

Selected Metrics	Year Ended December 31,	
	2016	2017
Average monthly unique visitors (million)*	102.1	115
Average monthly mobile unique visitors (million)*	65.9	75

* Source: Google Analytics

In evaluating our financial performance, we use non-GAAP net income and adjusted earnings before interest, taxes, depreciation and amortization (“adjusted EBITDA”), which are not measures calculated in accordance with GAAP and should not be considered as an alternative to any measure of financial performance calculated and presented in accordance with GAAP. In addition, these non-GAAP measures may not be comparable to similarly titled measures of other companies because other companies may not calculate them in the same manner that we do.

	Year Ended December 31,		
	2015	2016	2017
	(U.S. dollars in thousands)		
Non-GAAP net income (loss)	(73,620)	(171,790)	26,306
Adjusted EBITDA	(5,259)	(118,941)	76,316

Non-GAAP net income measures GAAP net income, excluding the impact of stock-based compensation expense change in fair value of trading securities, realized gain on available-for-sale securities, other non-operating loss, investment income, impairment on investments and one-off tax impact.

Adjusted EBITDA is defined as non-GAAP net income before income tax, excluding one-off tax impact, interest expenses, interest income, and depreciation. Adjusted EBITDA, while generally a measure of profitability, excludes certain non-cash expenses, interest and other income, income taxes, and certain other items that management believes affect the comparability of operating results.

Non-GAAP net income and adjusted EBITDA are key measures used by our management and board of directors to understand and evaluate our core operating performance and trends. In particular, we believe that the exclusion of the expenses eliminated in calculating non-GAAP net income and adjusted EBITDA can provide a useful measure for period-to-period comparisons of our core business. Accordingly, we believe that non-GAAP net income and adjusted EBITDA provide useful information to investors and others in understanding and evaluating our operating results in the same manner as our management and board of directors.

These non-GAAP measures have limitations as analytical tools, and you should not consider them in isolation or as substitutes for analysis of our financial results as reported under GAAP. Some of these limitations are:

- non-GAAP net income does not reflect the potentially dilutive impact of equity-based compensation;
- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future, and adjusted EBITDA does not reflect cash capital expenditure requirements for such replacements or for new capital expenditures;
- adjusted EBITDA does not reflect tax payments that historically have represented a reduction in cash available to us or tax benefits that may arise as a result of generating net losses; and
- other companies, including companies in our industry, may calculate adjusted EBITDA or similarly titled measures differently, which reduces its usefulness as a comparative measure.

The following tables present reconciliations of net income to non-GAAP net income and net income to adjusted EBITDA from continuing operations for each of the periods indicated:

Reconciliation of net income and non-GAAP net income	Year Ended December 31,		
	2015	2016	2017
	(U.S. dollars in thousands)		
GAAP net income (loss)	(15,133)	(169,635)	21,704
Share-based compensation	4,008	9,477	7,218
Realized gain on available-for-sale securities	—	-	(2,736)
Change in fair value of trading securities	-	-	(518)
Other non-operating income (loss)	-	-	4,562
Impairment on investments	-	2,232	2,768
One-off tax impact ⁽¹⁾	(61,162)	—	-
Investment income	1,333	(13,864)	(6,692)
Non-GAAP net income (loss)	(73,661)	(171,790)	26,306

(1) One-off tax impact recognized in 2015 represents the reversal of deferred tax liabilities in relation to the reversal of withholding tax.

Three of our PRC subsidiaries' obtained the certificates of "Software Enterprise" with effect from January 1, 2013. Accordingly, our three subsidiaries were entitled to a reduced enterprise income tax rate of 12.5% for 2015, 2016 and 2017.

Reconciliation of non-GAAP net income and adjusted EBITDA	Year Ended December 31,		
	2015	2016	2017
	(U.S. dollars in thousands)		
Non- GAAP net income (loss)	(73,620)	(171,790)	26,306
Add Back			
Interest expenses	16,519	20,791	16,153
Income tax expenses excluding one-off tax impact	59,519	24,983	21,442
Depreciation expenses	14,544	18,442	23,737
Subtract			
Interest income	(22,221)	(11,367)	(11,322)
Adjusted EBITDA	(5,259)	(118,941)	76,316

Re-election of Directors

On December 20, 2017, upon approval of our shareholders, Mr. Jingbo Wang was re-elected as a director of our board of directors and Mr. Mingqiang Bi was re-elected as an independent director of our board of directors and a member of the audit committee of the board.

Factors Affecting Our Results of Operations

Economic growth in China and in the PRC real estate market

We conduct substantially all of our business and operations in China. Accordingly, our results of operations have been, and are expected to continue to be, affected by the general performance of China's economy. As a leading real estate Internet portal, our financial results have also been affected by the performance of the real estate and home furnishing and improvement sectors in China.

Growth in China's Internet and online marketing sectors

We are an Internet portal company and a majority of our revenues are generated from our listing, marketing and e-commerce services. As such, our results of operations are heavily dependent on the successful and continued development of China's Internet and online marketing sectors. The Internet has emerged as an increasingly attractive and cost-effective advertising channel in China, especially as the number of Internet users, disposable income of urban households and network infrastructure in China have increased.

Performance of certain geographic areas and urban centers in China

A substantial portion of our revenues are concentrated in China's major urban centers including Beijing, Shanghai, Chengdu, Chongqing, Tianjin and Shenzhen. Although our percentage of revenues from these six urban centers has decreased as we expanded our operations elsewhere in China, we expect customers in these cities to continue to represent a significant portion of our revenues in the near term. We may also expand into new geographic areas and sectors. As of December 31, 2017, we had established real estate-related content, search services, marketing and listing coverage of more than 658 cities across China, and our Fang membership services, which were launched in 2011, were offered in 81 cities. The financial performance of newly penetrated cities will have a substantial impact on our results of operations as we expand into new markets, as we may incur significant additional operating expenses, including hiring new sales and other personnel, in order to expand our operations.

Competition in China's online real estate and home-related Internet services

We face competition from other companies in each of our primary business activities. In particular, the online real estate and home-related Internet service market in China has become increasingly competitive, and such competition may continue to intensify in future periods. As the barriers to entry for establishing Internet-based businesses are typically low, it is possible for new entrants to emerge and rapidly scale up their operations. We expect additional companies to enter the online real estate and home-related Internet service industry in China and a wider range of online services in this area to be introduced.

We expect to face additional competition as we develop and offer new services. For example, we began to offer direct sales services for new homes in August 2014, online real estate brokerage services in January 2015, and online home-decorating services and online sublease services in the second quarter of 2015. Some of our customers offer the same or similar services. Accordingly, we may face competition from these customers. In addition, such competition may adversely affect our relationships with these customers and our business.

PRC regulations affecting the Internet, online marketing, real estate and financing industries

The Internet, online marketing, real estate and financing industries in China are heavily regulated. PRC laws, rules and regulations cover virtually every aspect of these industries, including entry into the industry, the scope of permissible business activities and foreign investment. The PRC government also exercises considerable direct and indirect influence over these industries by imposing industry policies and other economic measures. Many of these regulations have recently been implemented and are expected to be refined and adjusted over time. Moreover, the PRC government regulates interest rates, real estate transaction taxes and the acquisition and ownership of real estate. It also regulates Internet access and the distribution of news, information or other content, as well as products and services, through the Internet. The PRC government also levies business taxes, value-added taxes, surcharges and cultural construction fees on advertising-related sales in China, such as sales of our listing, marketing, e-commerce, financial and other value-added services. In addition, because certain of our PRC subsidiaries and consolidated controlled entities currently qualify as "high and new technology enterprises" or "Software Enterprise," they enjoy tax holidays or lower rates from the relevant PRC tax authorities or under local governmental policies. If we were to lose such preferential tax treatment, we would be subject to a higher enterprise income tax rate, which would have a material adverse effect on our financial condition, results of operations and profitability. See "Item 4.B. Information on the Company—Business Overview—Regulation." Political, economic and social factors may also lead to further policy refinement and adjustments. The imposition of new laws and regulations, or changes to current laws and regulations, could have a material impact on our business, financial condition and results of operations.

Our ability to grow financial services while maintaining effective risk management

We began to offer financial services in the third quarter of 2014. We offer secured entrusted loans, mortgage loans as well as unsecured loans to real estate developers, property buyers and other borrowers and charge interest, service fees and guarantee fees. In 2017, our financial services primarily focused on secured consumer loans to individual borrowers. As of December 31, 2017, we had loans receivable with a principal balance of US\$149.0 million. The lending market has historically been dominated by commercial banks and other financial institutions. Compared with these market participants, we have significant less experience in managing the lending business. The growth of our financial services will depend on our ability to develop attractive loan products and services and manage related credit risk.

Demand for home furnishing and improvement information and products

As China's real estate market has expanded and matured, the ancillary home furnishing and improvement industry has also been growing to meet rising consumer demand. Similarly, we have expanded our marketing and listing services to suppliers of home furnishing and improvement products and services. By adding this category of advertisers and clients, we have been able to expand our sources of marketing and listing service revenues and, accordingly, expect the rate of increase in our revenues to continue to benefit from the continued growth of China's home furnishing and improvement sectors.

Basis of Presentation

To comply with applicable PRC laws, rules and regulations restricting foreign ownership of companies that operate Internet content provision and online advertising services, we operate our websites and mobile apps and provide such services in China through contractual arrangements with our consolidated controlled entities. Under the current regulatory regime, Internet content distribution is permitted to operators with less than 50.0% foreign investment and advertising is permitted to all qualified operators. We may consider further optimizing our corporate structure in light of the evolving regulatory environment. The equity interests of the consolidated controlled entities are held directly or indirectly by Mr. Mo, our founder, executive chairman and chief executive officer, and Mr. Dai, a former director and former chief executive officer, but the effective control of the consolidated controlled entities has been transferred to us through a series of Structure Contracts. We have funded these consolidated controlled entities' paid-in capital by extending loans to Mr. Mo and Mr. Dai. Pursuant to the terms of the Structure Contracts, we are obligated to bear substantially all of the risk of losses from our consolidated controlled entities' activities and are entitled to receive substantially all of their profits, if any. See "Item 7.B. Major Shareholders and Related Party Transactions—Related Party Transactions—Structure Contracts" and our consolidated financial statements included elsewhere in this annual report.

Based on these Structure Contracts, we believe that, notwithstanding our lack of equity ownership, the arrangements provide us with effective control over our consolidated controlled entities. Accordingly, the financial results of these entities are included in our consolidated financial statements.

We refer to our consolidated controlled entities as PRC entities we control through contractual arrangements together with their subsidiaries, or the PRC Domestic Entities and the PRC Domestic Entities' subsidiaries in our consolidated financial statements and related notes included elsewhere in this annual report.

Components of our Results of Operations

Revenues

We derive our revenues from listing services, marketing services, e-commerce services, financial services, and other value-added services

Listing Services

Our listing service revenues consist of revenues derived from both basic listing services and special listing services. Basic listing services are targeted at real estate agents, brokers, developers, property owners, property managers and others seeking to sell or rent new and secondary properties and allow visitors to our websites and mobile apps to search for product suppliers and service providers in China's home furnishing and improvement sector. Revenues from basic listing services are predominantly derived from our secondary and rental business. Special listing services are specialized marketing campaigns primarily to promote brands of leading developers. Leveraging our data analytical capabilities, we assess the strengths of the brands of companies in various real estate sectors and create a special listing campaign to recognize the leading companies in those sectors. Once the special listing campaigns are determined, we establish a marketing and promotional program consisting of various online and offline promotional activities, which together collectively promote the special listings. The program includes online marketing platforms such as our websites and WeChat and offline themed events such as conferences, discussion forums and banquets.

Marketing Services

Our marketing service revenues consist of revenues derived from the advertising services provided by our new home, secondary and rental properties and home furnishing and improvement businesses. Our marketing services include the design and deployment on our websites and mobile apps of banners, links, logos and floating signs.

E-commerce Services

Our e-commerce services, first launched in 2011, include Fang membership services, online real estate brokerage services, direct sales services for new homes, online home-decorating services and online sublease services. Our Fang membership services enable paid members to purchase specified properties from our partner real-estate developers at a discount significantly greater than the membership fees charged by us. Beginning in August 2014, we introduced direct sales services for new homes developed by our property developer clients on our marketing platforms, i.e., website and mobile apps. After individuals interested in the properties register with us, we provide them with additional information about the properties and related services, such as tours to visit the property developments and other services to facilitate property purchases. We charge our developer clients a fee for each property they sell through our direct sales services. In January 2015, we launched online real estate brokerage services. We charge a commission for each completed transaction. We launched our online home-decorating services in the second quarter of 2015, charging our customers a fixed fee based on the square footage of the premises undergoing decoration. We also launched our online sublease services in the second quarter of 2015. We promote and market real properties leased from third parties on our websites and mobile apps, and sublease such properties to our customers for rental fees.

Financial Services

Our revenues from financial services consist of interest income and annual service fees from primarily secured consumer loans to individuals that meet our credit assessment requirements.

Other value-added services

We provide other value-added services including subscription services for access to our information database and consulting services for customized and industry-related research reports and indices.

Cost of Revenues

Our cost of revenues includes cost of services. Cost of services primarily consists of staff costs, business taxes, value-added taxes and surcharges, operating lease expenses, network costs, communication expenses, share-based compensation expenses and other costs directly related to the offering of our listing, marketing, E-commerce, financial and other value-added services. Staff costs include salary and benefits paid to members of our editorial staff, customer service personnel, personnel dedicated to servicing and designing websites and mobile apps for our customers and personnel in the brokerage function. E-commerce cost refers to the portion of proceeds to be remitted to real estate brokers under our Fang membership services. Operating lease expenses consist primarily of rent for our various office facilities as allocated on the basis of the space occupied by our editorial staff and customer service personnel. Network costs consist of server hosting fees, bandwidth fees and related charges. Communication costs consist of telephone expenses relating to our operations. Cost of revenues also includes share-based compensation expenses in connection with share options and other share-based compensation granted to our editorial and production staff, and business taxes, value-added taxes and surcharges relating to technical and consulting service fees charged by our wholly-owned PRC subsidiaries for services provided under our exclusive technical consultancy and services agreements with our consolidated controlled entities. In 2015, 2016 and 2017, our cost of revenues represented 62.9%, 75.0% and 39.3% of our revenues, respectively. Starting from January 1, 2012, the PRC Ministry of Finance and SAT launched a Business Tax to Value-Added Tax ("VAT") Transformation Pilot Program (the "Pilot Program") for certain modern service industries. Effective August 1, 2013, the Pilot Program was expanded across China. With the adoption of the Pilot Program, our revenues are subject to VAT of 6% instead of business tax of 5%.

Operating Expenses

Our operating expenses consist of selling expenses and general and administrative expenses.

Selling Expenses

Our selling expenses primarily consist of staff costs, such as salaries and benefits paid to personnel in our sales and distribution department, costs for promoting our Fang membership services, operating lease expenses, which include rental expenses related to our selling and distribution department, traveling and communication expenses, office expenses and advertising and promotion expenses, including fees we pay to other Internet portals for the purpose of promoting and increasing traffic to our websites and mobile apps. Selling expenses also include other expenses incurred in relation to our selling and distribution activities and share-based compensation costs in connection with stock options and other share-based compensation granted to our sales and marketing personnel.

General and Administrative Expenses

General and administrative expenses primarily consist of staff costs, such as salaries and benefits paid to our management and general administrative, product and development personnel, bad debt expense relating to uncollectible accounts receivable, office expenses, communication expenses, professional service fees and other expenses for general and administrative purposes, as well as website development expenses related to the maintenance of our Internet portal browser and real estate database. Our general and administrative expenses also include share-based compensation costs in connection with share options and other share-based compensation granted to our general administrative, technical and research personnel.

Taxation

We are subject to income tax on an entity basis on profits arising in or derived from the jurisdictions where we, our subsidiaries or our consolidated controlled entities are domiciled or have operations.

Cayman Islands

Under the current laws of the Cayman Islands, the company and subsidiaries incorporated in the Cayman Islands are not subject to tax on income or capital gains. In addition, upon payments of dividends by us to our shareholders, no Cayman Islands withholding tax will be imposed.

British Virgin Islands

Under the current laws of the British Virgin Islands (“BVI”), subsidiaries incorporated in the BVI are not subject to tax on income or capital gains. In addition, upon payments of dividends by these companies to their shareholders, no BVI withholding tax will be imposed.

Hong Kong

Under the Hong Kong tax laws, subsidiaries incorporated in Hong Kong are subject to the Hong Kong profits tax rate at 16.5% and they are exempted from income tax on their foreign-derived income and there are no withholding taxes in Hong Kong on remittance of dividends. No provision for Hong Kong profits tax has been made in the financial statements as our Hong Kong-incorporated subsidiaries have no assessable profits for the three years ended December 31, 2017.

United States

Subsidiaries incorporated in the United States of America except for Best Fang do not conduct any substantive operations of their own. No provision for United States of America income tax has been made in the financial statements as these subsidiaries have no assessable income for the three years ended December 31, 2016. In addition, as these entities were in a loss position, no withholding tax on the undistributed earnings was recognized as of December 31, 2016 and 2017. In 2011, Best Work acquired a property in New York, the United States of America and claimed certain business expense deductions on its United States of America tax return. As Best Work currently has no operating activities, the respective business expense deductions may be denied by the United States of America federal and New York state tax authorities. In 2017, Best Fang acquired a property in California, the United States of America and made profits from rental income which was subject to income tax.

Singapore

Our Singapore-incorporated subsidiary does not conduct any substantive operations of its own. No provision for Singapore profits tax has been made in the financial statements as it had no assessable profits for 2017.

China

In March 2007, a new enterprise income tax law in China was enacted and then amended in February 2017. The New EIT Law applies a unified 25% enterprise income tax (“EIT”) rate to both foreign invested enterprises and domestic enterprises, unless a preferential EIT rate is otherwise stipulated. On April 14, 2008, relevant governmental regulatory authorities issued the Administrative Measures for Certification of High and New Technology Enterprises which was amended in January 2016. High and New Technology Enterprise (“HNTE”) status under the New EIT Law would entitle qualified and approved entities to a favorable EIT tax rate of 15%. The SAT issued Circular No. 203 in April 2009 and Circular 24 in June 2017 stipulating that entities which qualified for the HNTE status should apply with competent tax authorities to enjoy the reduced EIT rate of 15% provided under the New EIT Law starting from the year when the new HNTE certificate becomes effective. The HNTE certificate is effective for a period of three years and can be renewed for another three years. Subsequently, an entity needs to re-apply for the HNTE status in order to enjoy the preferential tax rate of 15%.

We have renewed and received HNTE certificates for SouFun Media, Beijing Zhong Zhi Shi Zheng, SouFun Network, Beijing Technology and Beijing JTX Technology in November 2015, which allows these subsidiaries to enjoy the preferential tax rate of 15% for 2015, 2016 and 2017. In November 2015, we also received the HNTE certificate for Beijing Hong An Tu Sheng, which nevertheless enjoyed a reduced EIT rate of 12.5% for 2015 as a holder of the certificate of “Software Enterprise.” Beijing Hong An was entitled to the preferential tax rate of 15% in 2016 and will remain qualified for the same preferential tax rate in 2017. In 2016, Beijing Tuo Shi applied the HNTE status and received the HNTE certificate in December 2016, allowing it to enjoy the preferential tax rate of 15% in 2016, 2017 and 2018.

If any of these seven subsidiaries fails to maintain the HNTE qualification under the New EIT Law and does not qualify for any other preferential tax treatment, they will no longer qualify for the preferential tax rate of 15%, which could have a material adverse effect on our results of operations and financial position provided that they do not qualify for any other preferential tax treatment. Historically, the abovementioned subsidiaries have successfully renewed their HNTE certificates after the previous certificates expired.

Subsequent to government approval in May 2014, Beijing Li Man Wan Jia, Beijing Zhong Zhi Xun Bo and Beijing Hua Ju Tian Xia obtained the certificates of “Software Enterprise” with effect from January 1, 2013. Accordingly, these three subsidiaries are entitled to a two-year EIT exemption for 2013 and 2014 and a reduced EIT rate of 12.5% for 2015, 2016 and 2017.

Dividends paid by our PRC subsidiaries out of the profits earned after December 31, 2007 to non-PRC tax resident investors are subject to PRC withholding tax. The withholding tax on dividends is 10%, unless a foreign investor’s tax jurisdiction has a tax treaty with the PRC that provides a lower withholding tax rate and the foreign investor is recognized as the beneficial owner of the income under the relevant tax rules.

Moreover, the New EIT Law treats enterprises established outside of China with “effective management and control” located in China as PRC resident enterprises for tax purposes. The term “effective management and control” is generally defined as exercising overall management and control over the business, personnel, accounting, properties, etc. of an enterprise. Our company, if considered a PRC resident enterprise for tax purposes, would be subject to the PRC EIT at the rate of 25% on our worldwide income for the period after January 1, 2008. As of December 31, 2017, we had not accrued for PRC tax on such basis. We will continue to monitor our tax status.

Critical Accounting Policies

We prepare our financial statements in conformity with U.S. GAAP, which requires us to make judgments, estimates and assumptions that affect the reported amounts of our assets and liabilities, disclosure of contingent assets and liabilities on the date of each set of financial statements and the reported amounts of revenues and expenses during each financial reporting period. We continually evaluate these estimates and assumptions based on the most recently available information, our own historical experience and various other assumptions that we believe to be reasonable under the circumstances. Since the use of estimates and assumptions is an integral component of the financial reporting process, actual results could differ from those estimates and assumptions.

An accounting policy is considered to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time such estimate is made, and if different accounting estimates that reasonably could have been used, or changes in the accounting estimates that are reasonably likely to occur periodically could materially impact the consolidated financial statements. We believe the following critical accounting policies reflect the more significant estimates and assumptions used in the preparation of our consolidated financial statements. The following descriptions of critical accounting policies, judgments and estimates should be read in conjunction with our consolidated financial statements and other disclosures included elsewhere in this annual report.

Revenue Recognition

We recognize revenues only when (1) there is persuasive evidence of an arrangement, (2) the sales price is fixed or determinable, (3) delivery of services has occurred, and (4) collectability is reasonably assured. We derive revenues from the provision of listing, marketing, E-commerce, financial and other value-added services. To the extent that our revenues consist of multiple deliverables, we will recognize such revenues in accordance with applicable accounting policies.

Listing Services

Listing service revenues consist of revenues derived from both basic listing and special listing services. We provide basic and special listing services to agents, brokers, property developers, property owners, property managers and others seeking to sell or rent new or secondary residential and commercial properties.

Basic listing services entitle customers to post information for properties, home furnishings and other related products and services in a specified area on our websites and mobile apps for a specified period of time, which typically range from one to 36 months, in exchange for a fixed fee. Written contracts, containing all significant terms, signed by us and our customers provide persuasive evidence of the arrangement. The amount of fee to be paid is not subject to change once the contract has been signed. The contracts generally do not contain any specific performance target or refund guarantee over the specified listing period. We perform credit assessments of our customers prior to signing the written contract to ensure collectability is reasonably assured. In accordance with ASC 605, “Revenue Recognition,” revenues are recognized ratably over the duration of the service period as the basic listing services are being delivered.

Special listing services consist of promotional activities associated with themed marketing campaigns, each generally over a one year duration and designed to recognize the leading companies within a specific real estate sector. For each special listing campaign, targeted leading companies participate in a collective marketing and promotional program for a specified fee, consisting of various online and offline promotional activities tied to the specialized theme of the campaign. Each revenue arrangement may include one or multiple special listing campaigns.

We evaluate our special listing revenue arrangements in accordance with ASC 605-25, “Revenue recognition—Multiple-element arrangements”. The promotional services within a special listing program are accounted for as one combined unit of accounting, as each promotional deliverable does not have standalone value to the customer since all the deliverables are tied to the specialized theme of the campaign, and are not sold separately. For contractual arrangements that contain multiple special listing campaigns, the program for each campaign is accounted for as a separate unit of accounting. ASC 605-25 requires revenues to be allocated to each unit of accounting on a relative fair value basis based on a selling price hierarchy. The selling price for a deliverable is based on vendor-specific objective evidence (“VSOE”) if available, third party evidence (“TPE”) if VSOE is not available, or best estimate of selling price (“BESP”) if neither VSOE nor TPE is available. We allocate total arrangement consideration to each unit of accounting based on its relative selling price, which is determined based on its BESP for that deliverable since neither VSOE nor TPE exist. In determining the BESP for each deliverable, we consider our overall pricing model and objectives when sold separately, as well as market or competitive conditions that may impact the price at which we would transact if the deliverable were sold regularly on a standalone basis. We monitor the conditions that affect its determination of selling price for each deliverable and reassess such estimates periodically. In accordance with ASC 250, “Accounting Changes and Error Corrections,” changes in the determination of the BESP are considered a change in accounting estimate and are accounted for on a prospective basis. The effect of changes in the BESP on the allocation of

arrangement consideration was insignificant for all periods presented.

Written contracts, containing all significant terms, signed by us and our customers provide persuasive evidence of the arrangement. The amount of fee to be paid is not subject to change once the contract has been signed. The contracts do not contain any specific performance, cancellation, termination or refund provisions. We perform credit assessments of our customers prior to signing the written contract to ensure collectability is reasonably assured. In accordance with ASC 605, "Revenue Recognition," revenues are recognized ratably over the duration of the campaign period as the special listing services are being delivered.

Marketing Services

We offer marketing services on our websites and mobile apps, primarily through banner advertisements, floating links, logos and other media insertions. These services are offered primarily to real estate developers and to a lesser extent providers of products and services for home decoration and improvement. Marketing services allow advertisers to place advertisements on specified areas of our websites and mobile apps, in various specified formats and over various periods of time. Written contracts, containing all significant terms, signed by us and our customers provide persuasive evidence of the arrangement. The contracts generally do not contain any specific performance target or refund guarantee.

We negotiate the service fee with the customer but once a price is agreed to and the written contract is signed by both parties, the price is fixed and not subject to change. Service fees are generally due and payable in installments over the service period. Marketing services typically last from several days to one year. Delivery of the services occurs upon displaying the agreed forms of service on our websites and mobile apps over the specified service period. We perform credit assessments on our customers prior to signing the written contract to ensure collectability is reasonably assured. We recognize revenues ratably over the contract period, when there is persuasive evidence of an arrangement, the fee is fixed or determinable and collection is reasonably assured, as prescribed by ASC 605 "Revenue Recognition."

Beginning in 2015, we began to enter into marketing service agreements with certain real estate developers, where we may elect to collect the contractually stated marketing service fee in the forms of (i) a designated real estate property, if transferred to us or sold to a third-party buyer designated by us prior to a pre-determined date, which typically falls at the end of the marketing service period, or (ii) cash, if we elect not to take the designated real estate property as settlement consideration by the pre-determined date. We determine the contractually stated marketing service fee under the new payment arrangements with reference to the cash price of the comparable services offered by us under the sole cash payment arrangements. The designated real estate property is typically a specifically identified residential unit within a residential community developed by the real estate developer and its fair value is generally commensurate with the contractually stated marketing service fee as of the date of the marketing service agreement. If we elect a settlement through the sale of the designated real estate property to a third-party buyer, we are entitled to retain the entire sales proceeds. In this scenario, we have the sole discretion in setting the sales price of the designated real estate property sold to the third-party buyer but have no incentive to permit such real estate property to be sold at a price lower than the contractually stated marketing service fee, which serves as a de-facto minimal selling price, as we would instead accept the cash payment of the stated marketing service fee. Prior to the pre-determined date, the real estate developer is obligated not to sell, encumber or otherwise dispose of the designated real estate property without our consent. We initially recognize the marketing service revenue up to the amount of the contractually stated marketing service fee. Any excess is contingent upon the sale of the designated real estate properties and is accounted for as contingent marketing service revenues, if and when the sale is consummated and all other revenue recognition criteria are met. We cease to enter these arrangements with real estate developers and collected all the marketing service fees in the form of (i) cash, or (ii) a designated real estate property transferred to us, from real estate developers in 2016.

Instead, we began to provide marketing services whereby the sole consideration for the services is in the form of a specifically identified unit of a development. We account for these arrangements pursuant to ASC 845, "Nonmonetary transactions," and have determined that the fair value of consideration received, i.e. the specifically identified real estate property, is more readily determinable than the marketing services surrendered. Accordingly, the fair value of property is used for measurement and revenues are recognized ratably over the service period.

For certain arrangements, we provide marketing services that contain multiple deliverables, that is, different forms of services to be delivered over different periods of time.

We account for each deliverable in the arrangement as separate unit of accounting. Revenues are allocated to each unit of accounting on a relative fair value basis based on a selling price hierarchy and are recognized ratably over the duration of the service period. The selling price for a deliverable is based on vendor-specific objective evidence ("VSOE") if available, third party evidence ("TPE") if VSOE is not available, or best estimate of selling price ("BESP") if neither VSOE nor TPE is available. The total arrangement consideration is allocated to each unit of accounting based on its relative selling price, which is determined based on our BESP for that deliverable because neither VSOE nor TPE exist. In determining the BESP for each deliverable, we consider our overall pricing model and objectives, as well as market or competitive conditions that may impact the price at which we would transact if the deliverable were sold regularly on a standalone basis. We monitor the conditions that affect its determination of selling price for each deliverable and reassess such estimates periodically.

E-commerce Services

We began to provide e-commerce services in 2011. Our e-commerce services primarily consist of Fang membership services, beginning in August 2014, direct sales services for new homes, beginning in January 2015, online real estate brokerage services, and beginning in the second quarter of 2015, online home-decorating services and online sublease services.

Fang Membership Services. We enter into arrangements with real estate developers, pursuant to which we charge our customers RMB5,000 to RMB20,000 in order for them to purchase specified properties from the real estate developers at a discount significantly greater than the fair value of the fees charged by us. The discount is either a fixed amount off or a fixed percentage of the price of the specified property. The fees paid by the customers to the Company are refundable before a purchase of the specified properties at a discount is made by the customers or if after the purchase, only if the customers can fulfill certain requirements under the refund policy. We choose to analogize to rights of return guidance in ASC 605-15 when accounting for refundable fees as reliable estimates of refunds can be made based on company-specific historical evidence. We recognize revenues when cash consideration of the fee is received and the discount has been applied by the customers to pay for the purchase price of the specified properties net of estimated refunds. Cash received in advance of the purchase of specified properties and provision for refunds are recorded as “customers’ refundable fees.”

In addition, we, real estate developers and marketing agencies entered into tri-party cooperation arrangements for certain Fang membership services. When customers use our Fang membership services to purchase specified properties in selected advertisements published by the marketing agents, a portion of the proceeds from the Fang membership services is remitted to the marketing agents. We recognized revenues from this type of Fang membership services on a net basis, representing the portion of proceeds received from customers that is ultimately retained by us as we are an agent in the arrangement. Commencing in 2014, we entered into cooperation arrangements directly with real estate developers for Fang membership services. We either engage third-party real estate agents or places advertisements with marketing agents to promote the real estate projects. We recognized revenues from this type of Fang membership services on a gross basis, representing the proceeds received from the real estate developers, as we are the primary obligor in the arrangement. Payments to third-party real estate agents are recorded as cost of sales, while payments to marketing agents are recorded as selling expenses. The portion to be remitted to third-party real estate agents and marketing agents is recorded as amounts payable to sales and marketing agents in “accrued expenses and other liabilities” on the consolidated balance sheets.

Online Real Estate Brokerage Services. We provide online brokerage services for sellers and buyers of secondary properties. Brokerage services may include property listing services, advisory services, transaction negotiation services and administration services. In addition to secondary property sales, we assist property owners and potential tenants with leasing transactions. Commission revenues derived from brokerage services are recognized upon the execution, fulfillment of all performance obligations specified on the tri-party transaction agreement that is entered into between the seller, buyer and us in our capacity as broker, and cash receipt.

Direct Sales Services. We promote property developments of our developer clients primarily through our websites and mobile apps. Potential buyers can register free of charge if they are interested in any real estate properties covered by our direct sales services. After the registration, we provide them with additional information about the properties and related services, such as tours to visit the property developments and other services to facilitate property purchases. By using the direct sales services, individual buyers can enjoy discounted prices for properties that we offer from our developer clients. We charge our developer clients a fee for each property they sold through our direct sales services at a predetermined percentage of the value of the individual transaction. The real estate developers can request for refund only if they can fulfill certain requirements under our refund policy. We choose to analogize to rights of return guidance in ASC 605-15 when accounting for refundable fees as reliable estimates of refunds can be made based on company-specific historical evidence. Revenues are recognized by the Company based on total of successful purchase transactions made, net of estimated refunds.

Online Home-decorating Services. In the second quarter of 2015, we launched online decoration services, which include interior design, remodeling, renovation, furnishing and other home improvement services. We recognize revenues based on the percentage-of-completion method and measure progress using input measures, i.e., cost-to-cost, in accordance with ASC 605-35, “Revenue Recognition Construction-Type and Production-Type Contracts.” Estimated losses, if any, are recognized during the period in which the loss becomes probable and reasonably estimable.

Online Sublease Services. Commencing in 2015, we began providing sublease service through our rental services channel. We identify suitable properties and initially enter into lease agreements with property owners. The lease agreements allow us to sublease the properties. We have the obligation to make fixed rental payments to the property owner over the non-cancellable lease term regardless whether we subsequently sublease the leased properties. The property owner is not a party to, and therefore not entitled to, any rights or obligations under our sublease agreement. Sublease rental income is recorded as revenue from subleasing services and recognized on a gross basis as we are the principal to the sublease arrangements. The sublease income is recognized on a straight-line basis over the lease term.

Financial Services

We provide financial services through our online financial platform, www.fangtx.com, and offline micro loan subsidiaries. We provide secured consumer loans to individuals that meet our credit assessment requirements. Revenues derived from loan interest income and annual service fees are recognized in financial services using the effective interest rate method. We do not accrue interest on loans receivable that are considered impaired or more than 90 days past due unless either the receivable has not been collected due to administrative reasons or the receivable is well secured and in the process of collection. Unsecured loans stop accruing interest when 60 days past due and are classified as impaired loans.

Other Value-added Services

We generate revenues from other value-added services, including primarily subscription services for access to our information database, and consulting services for customized and industry-related research reports and indices. Revenues derived from subscription services for access to our information database are recognized ratably over the subscription period. Revenues derived from consulting services for customized and industry-related research reports and indices are recognized when the relevant services are completed.

Our business is subject to value-added taxes, surcharges or cultural construction fees levied on advertising-related sales in China. In accordance with ASC 605-45, "Revenue Recognition—Principal Agent Considerations," all such value-added taxes, surcharges and cultural construction fees are presented as cost of revenues in the consolidated statements of comprehensive income (loss). Value-added taxes and related surcharges and cultural construction fees for 2015, 2016 and 2017 were US\$48.3 million, US\$68.0 million and US\$33.3 million, respectively.

All service fees received in advance of the provision of services are initially recorded as deferred revenues and subsequently recognized as revenues when we perform the related services.

Accounts Receivable and Allowance for Doubtful Accounts

We review the accounts receivable on a periodic basis and makes general and specific allowances when there is doubt as to the collectability of individual balances.

We consider many factors in assessing the collectability of its receivables, such as, the age of the amounts due, the customer's payment history and credit-worthiness. An allowance for doubtful accounts is recorded in the period in which a loss is determined to be probable. Accounts receivable balances are written off after all collection efforts have been exhausted.

Funds Receivable

Funds receivable represents cash from Fang membership services due from third-party payment service providers for clearing transactions. We carefully consider and monitor the credit worthiness of the third-party payment service providers used.

An allowance for doubtful accounts is recorded in the period in which a loss is determined to be probable. Funds receivable balances are written off after all collection efforts have been exhausted. Nil, US\$2.3 million and nil allowance for doubtful accounts was provided for the funds receivable, as of December 31, 2015, 2016 and 2017, respectively.

Loans Receivable

Loans receivable consists primarily of secured consumer loans to individuals that have passed our credit assessment. Such amounts are recorded at the principal amount less impairment as of the balance sheet date. The loan periods extended by us to the borrowers generally range from one to thirty-six months.

An allowance for credit loss is recorded when, based on current information and events, it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement. We assess the allowance for credit loss related to loans receivable on a quarterly basis, either on an individual or collective basis. We consider various factors in evaluating loans receivable for possible impairment on an individual basis. These factors include the amount of the loan, historical experience, value of collateral, if any, credit quality and age of the receivables balances. Impairment is measured on an individual loan basis using either the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral if the loan is secured. We evaluate the remainder of our loans receivables portfolio for impairment on a collective basis in accordance with ASC 450-20, "Loss Contingencies" and record an allowance for credit loss at the portfolio segment level.

Loan principal and interest receivables are charged-off when the loan principal and interest receivables are deemed to be uncollectible, which is generally identified if any of the following conditions are met: (1) the borrower is dead, missing or incapacitate and there is no legal heir and presentee or the legal heir and presentee refuse to abide the contract; (2) identification of fraud, and the fraud is officially reported to and filed with relevant law enforcement departments; (3) outstanding amount following 180 days past due after all collection efforts based on management's judgment.

Commencing in August 2014, we began to enter into arrangements with third-party investors under which we sell the economic benefits in certain mortgage loans receivable in exchange for cash, which is equivalent to the book value of such loans receivable. Sales of mortgage and unsecured loans receivable to investors are accounted for in accordance with ASC 860 "Transfers and Servicing." We do not recognize any gain or loss from the sale of mortgage and unsecured loans receivable and derecognize the mortgage and unsecured loans receivable if (1) the loans have been legally isolated from us, (2) there are no constraints on investors to pledge or exchange the mortgage and unsecured loans, and (3) we do not maintain effective control over the mortgage and unsecured loans. We ceased entering into these arrangements with third party investors from June 2016.

Share-based Compensation

Our employees and directors participate in our share-based award incentive plan. We apply ASC 718, "Compensation-Stock Compensation," to account for our employee share-based payments. There were no share-based payments made to non-employees for any of the years presented. In accordance with ASC 718, we determine whether a share option should be classified and accounted for as a liability award or an equity award. All grants of share-based awards to employees classified as equity awards are recognized in the financial statements based on their grant-date fair values, which are calculated using an option pricing model. All grants of share-based awards to employees and directors classified as liabilities are re-measured at the end of each reporting period with an adjustment for fair value recorded to the current period expense in order to properly reflect the cumulative expense based on the current fair value of the vested awards over the vesting periods. We have elected to recognize compensation expense using the straight-line method for all employee equity awards granted with graded vesting based on service conditions, which were not subject to performance vesting conditions.

We use the accelerated attribution method for the equity awards with performance conditions on a tranche-by-tranche basis, based on the probable outcome of the performance conditions. To the extent the required vesting conditions are not met resulting in the forfeiture of the share-based awards, previously recognized compensation expense relating to those awards is reversed. With effect from January 1, 2017, forfeitures are recognized when they occur.

Cancellation of an award accompanied by the concurrent grant of a replacement award is accounted for as a modification of the terms of the cancelled award ("modified awards"). The compensation costs associated with the modified awards are recognized if the new vesting condition is achieved. Total recognized compensation cost for the awards is at least equal to the fair value of the awards at the grant date unless at the date of the modification the performance or service conditions of the original awards are not expected to be satisfied. The incremental compensation cost is measured as the excess of the fair value of the replacement award over the fair value of the cancelled award at the cancellation date. Therefore, in relation to the modified awards, the Company recognizes share-based compensation over the vesting periods of the replacement award, which comprises, (1) the amortization of the incremental portion of share-based compensation over the remaining vesting term and (2) any unrecognized compensation cost of the original award over the original term.

In March 2016, the Financial Accounting Standards Board ("FASB") issued a new accounting standard update on simplifying the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The new guidance also allows an entity to account for forfeitures when they occur. This guidance became effective for reporting periods beginning after December 15, 2016. The Company adopted this new guidance on January 1, 2017. In prior years, excess tax benefits were recognized in additional paid-in capital; tax deficiencies were recognized either as an offset to accumulated excess tax benefits, if any, or in the consolidated statement of comprehensive income. Excess tax benefits were not recognized until the deduction reduces taxes payable. Upon adoption, all excess tax benefits and tax deficiencies are recognized as income tax expense or benefit in the consolidated statement of comprehensive income. The Company also elected to account for forfeitures as they occur, rather than estimate expected forfeitures. The changes in the timing of when excess tax benefits are recognized and forfeitures were adopted on a modified retrospective basis, and no material cumulative effect adjustment to retained earnings was resulted.

Income Taxes

We follow the liability method of accounting for income taxes, whereby deferred tax assets and liabilities are recognized based on the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and attributable to operating loss and tax credit carryforwards, if any. We reduce carrying amounts of deferred tax assets by a valuation allowance, if, based on the available evidence, it is "more-likely-than-not" that such assets will not be realized. Accordingly, we assess the need to establish valuation allowances for deferred tax assets at each reporting period based on a "more-likely-than-not" realization threshold. This assessment considers, among other matters, the nature, frequency and severity of current and cumulative losses, forecasts of future profitability, the duration of statutory carryforward periods, our experience with operating loss and tax credit carryforwards, if any, not expiring.

We apply ASC 740, "Income Taxes" to account for uncertainties in income taxes. In accordance with the provisions of ASC 740, we recognize in our financial statements the impact of a tax position if a tax return position or future tax position is "more-likely-than-not" to prevail based on the facts and technical merits of the position. Tax positions that meet the "more-likely-than-not" recognition threshold are measured at the largest amount of tax benefit that has a greater than fifty percent likelihood of being realized upon settlement.

Our estimated liability for unrecognized tax benefits, which is included in “accrued expenses and other liabilities,” is periodically assessed for adequacy and may be affected by changing interpretations of laws, rulings by tax authorities, changes and/or developments with respect to tax audits and expiration of the statutes of limitation. The outcome for a particular audit cannot be determined with certainty prior to the conclusion of the audit and, in some cases, the appeal or litigation process. The actual benefits ultimately realized may differ from our estimates. As each audit is concluded, adjustments, if any, are recorded in our financial statements. Additionally, in future periods, changes in facts, circumstances and new information may require us to adjust the recognition and measurement estimates with regard to individual tax positions. Changes in recognition and measurement estimates are recognized in the period in which the changes occur.

Interest and penalties arising from underpayment of income taxes are computed in accordance with the relevant PRC tax law. The amount of interest expense is computed by applying the applicable statutory rate of interest to the difference between the tax position recognized and the amount previously taken or expected to be taken in a tax return. Interest and penalties recognized in accordance with ASC 740 are classified in our consolidated statements of comprehensive income (loss) as income tax expense.

Investments

All highly liquid investments with original maturities of greater than 90 days but less than 365 days are classified as short-term investments which are stated at their approximate fair value.

We account for our investments in accordance with ASC 320, “Investments-Debt and Equity Securities” (“ASC 320”). We classify the investments in debt and equity securities as “held-to-maturity,” “trading” or “available-for-sale,” whose classification determines the respective accounting methods stipulated by ASC 320. Dividend and interest income, including amortization of the premium and discount arising at acquisition, for all categories of investments in securities are included in earnings. Any realized gains or losses on the sale of the investments are determined on a specific identification method, and such gains and losses are reflected in the consolidated statements of comprehensive income (loss).

The securities that we have positive intent and ability to hold to maturity are classified as held-to-maturity securities and stated at amortized cost. For individual securities classified as held-to-maturity securities, we evaluate whether a decline in fair value below the amortized cost basis is other-than-temporary in accordance with our policy and ASC 320. If we conclude that we do not intend or are not required to sell an impaired debt security before the recovery of its amortized cost basis, the impairment is considered temporary and the held-to-maturity securities continue to be recognized at the amortized costs. When we intend to sell an impaired debt security or are more likely than not that we will be required to sell prior to recovery of its amortized cost basis, an other-than-temporary impairment is deemed to have occurred. In these instances, the other-than-temporary impairment loss is recognized in the consolidated statements of comprehensive income (loss) equal to the entire excess of the debt security’s amortized cost basis over its fair value at the balance sheet date of the reporting period for which the assessment is made.

The securities that are bought and held principally for the purpose of selling them in the near term are classified as trading securities. Unrealized holding gains and losses for trading securities are included in earnings.

Investments not classified as trading or as held-to-maturity are classified as available-for-sale securities. Available-for-sale securities are reported at fair value, with unrealized gains and losses recorded in accumulated other comprehensive income (loss) in shareholders’ equity. Realized gains or losses are charged to earnings during the period in which the gain or loss is realized. An impairment loss on the available-for-sale securities are recognized in the consolidated statements of comprehensive income (loss) when the decline in value is determined to be other-than-temporary.

In accordance with ASC 325 “Investments-Other,” for investments in an investee over which we do not have significant influence and which do not have readily determinable fair value, we carry the investment at cost and only adjusts for other-than-temporary declines in fair value and distributions of earnings that exceed our share of earnings since our investment. Management regularly evaluates the impairment of the cost method investments based on performance and financial position of the investee as well as other evidence of market value. Such evaluation includes, but is not limited to, reviewing the investee’s cash position, recent financing, projected and historical financial performance, cash flow forecasts and financing needs. An impairment loss is recognized in earnings equal to the excess of the investment’s cost over its fair value at the balance sheet date of the reporting period for which the assessment is made. The fair value would then become the new cost basis of investment.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, “Revenue from Contracts with Customers” (“ASU 2014-09”). ASU 2014-09 supersedes the revenue recognition requirements in ASC topic 605, and requires entities to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. This update also requires enhanced disclosures regarding the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity’s contracts with customers. ASU 2014-09 is originally effective for the annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. ASU No. 2015-14, “Revenue from Contracts with Customers” (“ASU 2015-14”), defers the effective date of ASU 2014-09 by one year. As a result, ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2017 and interim periods therein. Early adoption is permitted to the original effective date. We will adopt the new revenue standard effective on January 1, 2018, using the modified retrospective method. The cumulative effect of initially applying the new standard will be recognized on the day of initial application and prior periods will not be retrospectively adjusted.

We are in the process of finalizing its assessment of the impact of the new revenue standard on our primary sources of revenues, as well as the design and implementation of relevant controls to our financial reporting process.

As a result of the assessment, we expect the key impacts from the adoption of the new revenue standard with respect to its primary sources of revenues as follows:

- Our revenues will be presented net of value-added tax collected on behalf of third parties, which are currently presented in cost of revenues.
- We currently assess whether collectibility is reasonably assured at the outset of the arrangement, and subsequently reassessed if there is a substantive change in facts and circumstances. If the collectibility of all or a portion of the fee is not reasonably assured, all revenue recognition are deferred until payment is received (assuming all of the other revenue recognition criteria have been met). Under the new revenue standard, no revenue will be recognized until it is probable that we will collect substantially all of the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer. The assessment is based on whether the customer has the ability and intention to pay the consideration. In cases in which the contract does not meet this criteria for revenue recognition, we will recognize nonrefundable consideration received as revenue only when one of the following has occurred:
 - we have fully performed and substantially all of the consideration has been received;
 - the contract has been terminated; or
 - we have transferred control of the goods or services and has stopped transferring (and has no obligation under the contract to transfer) additional goods or services to the customer, if applicable.Until one of these events happens, any consideration received from the customer is initially recorded as a liability.

Our current policy is to require written contracts with its customers as persuasive evidence of its revenue arrangements. In certain cases where services are being delivered prior to the receipt of the signed contracts, the revenue is currently deferred until such time the final signed contracts are collected. Under the new revenue standard, revenues may be recognized prior to the receipt of the signed contracts (assuming all other revenue recognition criteria are satisfied), as contracts may be written, oral, or implied based an entity’s customary business practices, so long as they are legally enforceable.

In January 2016, the FASB issued ASU No. 2016-01 (“ASU 2016-01”), Financial Instruments. ASU 2016-01 requires equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. An entity may choose to measure equity investments that do not have readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. ASU 2016-01 also simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment. When a qualitative assessment indicates that impairment exists, an entity is required to measure the investment at fair value. For public business entities, the amendments are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted. We will adopt the new standard effective January 1, 2018. The adoption of ASU 2016-01 will increase the volatility of our non-operating income, resulting from the re-measurement of equity investments. Besides, the unrealized gain on available-for-sale securities of US\$163,785 reported in accumulated other comprehensive income will be reclassified from accumulated other comprehensive income to retained earnings at the date of adoption.

In February 2016, the FASB issued ASU No. 2016-02 (“ASU 2016-02”), “Leases (Topic 842).” ASU 2016-02 requires lessees to recognize the rights and obligations resulting from leases as assets and liabilities. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. We expect the impact of the adoption of ASU 2016-02 is a gross up assets and liabilities on the consolidated balance sheet.

In June 2016, the FASB issued ASU No. 2016-13 (“ASU 2016-13”), Financial Instruments – Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments. ASU 2016-13 changes the impairment model for most financial assets and certain other instruments. The standard will replace “incurred loss” approach with an “expected loss” model for instruments measured at amortized cost. For available-for-sale debt securities, entities will be required to record allowances rather than reduce the carrying amount, as they do today under the other-than-temporary impairment model. The standard is effective for public business entities for annual periods beginning after December 15, 2019, and interim periods therein. Early adoption is permitted. We are currently evaluating the impact of adopting this standard on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230), Classification of Certain Cash Receipts and Cash Payments (“ASU 2016-15”). ASU 2016-15 reduces the existing diversity in practice in financial reporting across all industries by clarifying certain existing principles in ASC topic 230, Statement of Cash Flows (“ASC 230”), including providing additional guidance on how and what an entity should consider in determining the classification of certain cash flows. The amendments are effective for public business entities for interim periods and fiscal years beginning after December 15, 2017. The adoption of this guidance is not expected to have a material impact on our consolidated financial statements.

In November 2016, the FASB issued Accounting Standards Update No. 2016-18 (“ASU 2016-18”), Statement of Cash Flows (Topic 230): Restricted Cash. ASU 2016-18 clarifies certain existing principles in ASC 230, including providing additional guidance related to transfers between cash and restricted cash and how entities present, in their statement of cash flows, the cash receipts and cash payments that directly affect the restricted cash accounts. The amendments are effective for public business entities for interim periods and fiscal years beginning after December 31, 2017. Early adoption is permitted. The amendments should be applied retrospectively to each period presented. The adoption of these amendments will impact the presentation and classification of restricted cash in our consolidated statements of cash flows.

Results of Operations

The following table sets forth selected financial data from our consolidated statements of comprehensive income for the periods indicated:

	Year Ended December 31,					
	2015		2016		2017	
	Amount	Percentage of revenue	Amount	Percentage of revenue	Amount	Percentage of revenue
(US\$ in thousands, except percentage)						
Revenues						
E-commerce services	474,810	53.7%	577,684	63.0%	87,809	19.8%
Marketing services	249,862	28.3%	165,437	18.1%	149,267	33.6%
Listing services	107,922	12.2%	118,109	12.9%	165,374	37.2%
Financial services	29,582	3.4%	29,602	3.2%	12,055	2.7%
Other value-added services	21,373	2.4%	25,559	2.8%	29,791	6.7%
Total revenues	883,549	100.0%	916,391	100.0%	444,296	100.0%
Cost of revenues						
Cost of services	(555,389)	(62.9)%	(687,184)	(75.0)%	(17,459)	(39.3)%
Total cost of revenues	(555,389)	(62.9)%	(687,184)	(75.0)%	(174,599)	(39.3)%
Gross profit	328,160	37.1%	229,207	25.0%	269,697	60.7%
Operating income (expenses)						
Selling expenses	(236,603)	(26.8)%	(229,817)	(25.1)%	(91,250)	(20.5)%
General and administrative expenses	(125,405)	(14.2)%	(151,251)	(16.5)%	(135,688)	(30.5)%
Other income (loss)	(625)	(0.1)%	415	-	(567)	(0.1)%
Operating income (loss)	(34,473)	(4.0)%	(151,446)	(16.5)%	42,192	9.5%
Foreign exchange gain (loss)	1,464	0.2%	(1,882)	0%	15	-
Interest income	22,221	2.5%	11,367	1.2%	11,322	2.5%
Interest expenses	(16,519)	(1.9)%	(20,791)	(2.3)%	(16,153)	(3.6)%
Change in fair value of trading securities	-	-	-	-	518	0.1%
Realized gain on available-for-sale securities (including accumulated other comprehensive income reclassifications for unrealized gain on available-for-sale securities of nil, nil, US\$10,583 and US\$2,736 for the year ended December 31, 2012, 2013, 2014, 2016 and 2017, respectively)	—	—	10,583	1.2%	2,736	0.6%
Government grants	4,936	0.6%	6,469	0.7%	3,154	0.7%
Investment income	1,333	0.2%	3,281	0.4%	6,692	1.5%
Impairment on investments	—	—	(2,232)	(0.2)%	(2,768)	(0.6)%
Other non-operating income	-	-	-	-	(4,562)	(1.0)%
Income (loss) before income taxes and noncontrolling interests	(21,038)	(2.4)%	(144,651)	(15.8)%	43,146	9.7%
Income tax (expenses) benefit	5,905	0.7%	(24,984)	(2.7)%	(21,442)	(4.8)%
Net income (loss)	(15,133)	(1.7)%	(169,635)	(18.5)%	21,704	4.9%
Net loss attributable to noncontrolling interests	(37)	-	—	—	(3)	-
Net income (loss) attributable to SouFun Holdings Limited's shareholders	(15,096)	(1.7)%	(169,635)	(18.5)%	21,707	4.9%
Other comprehensive income (loss), before tax						
Foreign currency translation adjustments	(55,928)	(6.3)%	(60,732)	(6.6)%	56,571	12.7%
Amounts reclassified from accumulated other comprehensive income	—	—	(10,583)	(1.2)%	(2,736)	(0.6)%
Unrealized gain (loss) on available-for-sale securities	(4,002)	(0.5)%	7,326	0.8%	212,838	47.9%
Gain(loss) on intra-entity foreign transactions of long-term-investment nature	—	—	(6,996)	(0.8)%	1,872	0.4%
Other comprehensive income (loss), before tax	(59,930)	(6.8)%	(70,985)	(7.7)%	268,545	60.4%
Income tax expense related to components of other comprehensive income	—	—	—	—	(49,566)	(11.2)%
Other comprehensive income (loss), net of tax	(59,930)	(6.8)%	(70,985)	(7.7)%	218,979	49.2%
Comprehensive income (loss)	(75,063)	(8.5)%	(240,620)	(26.3)%	240,686	52.9%
Comprehensive loss attributable to noncontrolling interests	(37)	—	—	—	(3)	-
Comprehensive income (loss) attributable to Fang Holdings Limited's shareholders	(75,026)	(8.5)%	(240,620)	(26.3)%	235,110	52.9%
Share-based compensation expenses included in:						

Cost of revenues	471	0.1%	443	0.0%	364	0.1%
Selling expenses	446	0.1%	512	0.0%	479	0.1%
General and administrative expenses	3,485	0.4%	5,597	0.6%	6,375	1.4%

Revenues

Our revenues decreased 51.5% year-over-year in 2017. The year-over-year decrease in revenues in 2017 was primarily due to a significant decline in revenues from e-commerce services as a result of changes in our business strategy. Our revenues increased 3.7% year-over-year in 2016. The year-over-year increase in revenues in 2016 was primarily driven by the growth of our e-commerce services during the first three quarters of 2016.

Listing Services. Revenues from our listing services increased 40.0% and 9.4% year-over-year in 2017 and 2016, respectively. The significant increase in 2017 was primarily due to an increase in the number of customers, in particular those from lower-tier cities, who paid for our services. The increase in 2016 was primarily due to an increase in the number of customers paying for our services and an increase in the fees charged for our services. In 2015, 2016 and 2017, revenues from our listing services represented 12.2%, 12.9% and 37.2% of our revenues, respectively. We believe that listing service revenues will continue to remain a significant source of revenue. However, regulatory efforts to require additional down payments and other actions to dampen the growing market for secondary homes have impacted and may continue to impact our revenues. In addition, our expansion into the online real estate brokerage services has adversely affected and may continue to adversely affect our relationship with customers of our listing services that are real estate brokers, which in turn has adversely affected and may continue to adversely affect our revenues from listing services.

The following table sets forth our listing service revenues by amount and percentage of our listing service revenues for the periods indicated:

	Year Ended December 31,					
	2015		2016		2017	
	Amount	Percentage of listing service revenues	Amount	Percentage of listing service revenues	Amount	Percentage of listing service revenues
	(US\$ in thousands, except percentage)					
Basic listing	83,972	77.8%	91,742	77.7%	140,517	85.0%
Special listing	23,950	22.2%	26,367	22.3%	24,857	15.0%
Total listing service revenues	107,922	100.0%	118,109	100.0%	165,374	100.0%

The average revenue per paying subscriber was US\$410, US\$567 and US\$623 for 2015, 2016 and 2017, respectively. The continued increase in the average revenue per paying subscriber was primarily due to the overall growth of the market and our refined product strategies.

The following table presents our listing service revenues for each of our businesses by amount and percentage of total listing service revenues for the periods indicated:

	Year Ended December 31,					
	2015		2016		2017	
	Amount	Percentage of listing service revenues	Amount	Percentage of listing service revenues	Amount	Percentage of listing service revenues
	(US\$ in thousands, except percentage)					
Secondary and rental properties	83,972	77.8%	94,507	80.0%	140,492	85.0%
Research	21,540	20.0%	22,959	19.4%	24,522	14.8%
Other product group	2,410	2.2%	643	0.5%	360	0.2%
Total listing service revenues	107,922	100.0%	118,109	100.0%	165,374	100.0%

Secondary and rental properties business accounted for 77.8%, 80.0% and 85.0% of our listing service revenues in 2015, 2016 and 2017, respectively.

Marketing Services. Our marketing service revenues consist of revenues derived from the advertising services provided by our new home, secondary and rental properties and home furnishing and improvement businesses. Our marketing services include the design and deployment on our websites and mobile apps of banners, links, logos and floating signs. Revenues from marketing services decreased and 9.8% and 33.8% year-over-year in 2017 and 2016, primarily due to a slowdown in the real estate market and the increased competition for similar services in China. In 2015, 2016 and 2017, revenues generated from our marketing services represented 28.3%, 18.1% and 33.6% of our revenues, respectively.

The following table presents our marketing service revenues for each of our businesses by amount and percentage of total marketing service revenues for the periods indicated:

	Year Ended December 31,					
	2015		2016		2017	
	Amount	Percentage of marketing service revenues	Amount	Percentage of marketing service revenues	Amount	Percentage of marketing service revenues
	(US\$ in thousands, except percentage)					
New home	219,057	87.7%	144,631	87.4%	121,497	81.4%
Home furnishing and improvement	28,307	11.3%	19,171	11.6%	-	-%
Secondary and rental	2,498	1.0%	1,635	1.0%	27,770	18.6%
Total marketing service revenues	249,862	100.0%	165,437	100.0%	149,267	100.0%

New home business accounted for 87.7%, 87.4% and 81.4% of our marketing service revenues in 2015, 2016 and 2017, respectively. New home business primarily consists of marketing services for newly developed properties for sale. Our new home customers are largely real estate developers and their sales agents who are in the process of promoting newly developed properties for sale.

E-commerce Services. Revenues from e-commerce services decreased 84.8% year-over-year in 2017, primarily due to our business transformation from a transaction-oriented platform back to an Internet information platform. Revenues from e-commerce services increased 21.7% year-over-year in 2016, primarily due to the growth of our online real estate brokerage services in the first half of 2016. Revenues from e-commerce services represented 53.7%, 63.0% and 19.8% of our revenues in 2015, 2016 and 2017, respectively.

The following table presents our e-commerce service revenues for each of our businesses by amount and percentage of total e-commerce service revenues for the periods indicated:

	Year Ended December 31,					
	2015		2016		2017	
	Amount	Percentage of e-commerce service revenues	Amount	Percentage of e-commerce service revenues	Amount	Percentage of e-commerce service revenues
	(US\$ in thousands, except percentage)					
New home	318,612	67.1%	265,583	46.0%	36,672	41.8%
Other product groups	156,198	32.9%	312,101	54.0%	51,137	58.2%
Total e-commerce service revenues	474,810	100.0%	577,684	100.0%	87,809	100.0%

New home business accounted for a substantial portion of our e-commerce service revenues in 2015. Other product groups accounted for an increasing portion of our e-commerce services revenues in 2016 and 2017 as a result of the continued development of our online real estate brokerage services.

Financial Services. Revenues from financial services decreased 59.3% year-over-year in 2017, primarily due to the decreased transaction volumes of secondary homes. Revenues from financial services slightly increased in 2016. In 2015, 2016 and 2017, revenues from financial services represented 3.4%, 3.2% and 2.7% of our revenues, respectively.

Other Value-Added Services. Revenues from other value-added services increased 16.6% and 19.6% year-over-year in 2017 and 2016, respectively, primarily due to a rising demand for our database and research services. In 2015, 2016 and 2017, revenues from other value-added services represented 2.4%, 2.8% and 6.7% of our revenues, respectively.

Cost of Revenues

Our cost of revenues consists primarily of staff costs, operating lease costs, decoration costs, sales taxes and commission fees. Our cost of revenues as a percentage of our revenues was 62.9%, 75.0% and 39.3% in 2015, 2016 and 2017, respectively.

Our cost of revenues decreased significantly year-over-year in 2017, primarily due to a decline in staff costs to US\$61.7 million in 2017 from US\$419.3 million in 2016 as a result of the reduction in staff headcount of our brokerage team for secondary properties and the optimization in our cost structure under the technology-driven open platform model.

Our cost of revenues increased year-over-year in 2016, primarily due to the increased staff costs to US\$419.3 million in 2016 from US\$312.2 million in 2015 as a result of an increase in staff headcount and compensation bases during the first three quarters of 2016. The increase in headcount was primarily attributable to increases in sales and marketing and editorial and production staff to support our transaction-oriented service platform. The increase in compensation bases was generally consistent with a rise in the general cost of living in China. Beginning in the fourth quarter of 2016, the number of our employees decreased significantly as a result of the decline in our e-commerce services due to unfavorable government measures regulating the real estate market.

Gross Profit and Gross Margin

As a result of the foregoing, our gross profit increased 17.7% year-over-year in 2017 and decreased 30.2% year-over-year in 2016. Our gross margin was 37.1%, 25.0% and 60.7% in 2015, 2016 and 2017, respectively.

Operating Expenses

Our operating expenses decreased 40.4% year-over-year in 2017, primarily due to a significant decrease in our selling expenses. Our operating expenses increased 5.3% year-over-year in 2016, primarily attributable to an increase in our general and administrative expenses. In 2015, 2016 and 2017, our operating expenses represented 41.0%, 41.6% and 51.1% of our revenues, respectively.

The following table sets forth our operating expenses by amount and percentage of our total operating expenses for the periods indicated:

	Year Ended December 31,					
	2015		2016		2017	
	Amount	Percentage of operating expenses	Amount	Percentage of operating expenses	Amount	Percentage of operating expenses
	(US\$ in thousands, except percentage)					

Selling expenses	236,603	65.4%	229,817	60.3%	91,250	40.2%
General and administrative expenses	125,405	34.6%	151,251	39.7%	135,688	59.8%
Total	362,008	100.0%	381,068	100.0%	226,983	100.0%

Selling Expenses. Our selling expenses decreased 60.3% and 2.9% year-over-year in 2017 and 2016, respectively. The decrease in 2017 was primarily due to the decrease in selling expenses associated with our e-commerce services and advertising and promotional expenses. Selling expenses associated with our e-commerce services decreased from US\$72.4 million to US\$0.4 million year-over-year in 2017, which was in line with the decrease in our revenues from e-commerce services. Advertising and promotional expenses decreased from US\$61.9 million to US\$16.8 million year-over-year in 2017, primarily due to the decrease of promotions for our Fang membership card services, our website, new domain name and the Fang mobile applications. The decrease in 2016 was primarily due to a decrease of staff cost. In particular, our expenses paid to our marketing agents and rebates paid to real estate buyers that made purchases through our services increased from US\$77.0 million to US\$93.6 million year-over-year in 2016, primarily due to the expansion of Fang membership and direct sale services. Advertising and promotional expenses increased from US\$45.2 million to US\$61.9 million year-over-year in 2016, primarily due to promotions for our Fang membership card services, our website, new domain name and the Fang mobile applications. Staff costs decreased from US\$80.2 million to US\$50.2 million year-over-year in 2016, primarily due to a decrease of commission fees paid to our sales personnel.

General and Administrative Expenses. Our general and administrative expenses decreased 10.3% year-over-year in 2017 and increased 20.6% year-over-year in 2016. The decrease in general and administrative expenses in 2017 was primarily due to a decline in staff cost from US\$76.8 million in 2016 to US\$63.9 million in 2017. The increase in general and administrative expenses in 2016 was primarily due to an increase in staff cost from US\$72.1 million in 2015 to US\$76.8 million in 2016.

Other Income (Loss). Other loss in 2017 consisted of other revenue of US\$12.2 million and other expenses of US\$12.8 million of our subsidiaries that operate the hotel and office leasing businesses. Other loss in 2016 consisted of other revenue of US\$12.1 million and other expenses of US\$11.7 million of our subsidiaries that operate the hotel and office leasing businesses.

Operating Income (Loss) and Operating Margin

As a result of the foregoing, we generated operating income of US\$36.8 million in 2017 and incurred operating loss of US\$151.4 million in 2016. Our operating margin was 3.9%, 16.5% and 8.3% in 2015, 2016 and 2017, respectively.

Interest Income

Our interest income, consisting primarily of interest income from cash and restricted cash as well as short-term investments, remained relatively stable at US\$11.4 million and US\$11.3 million in 2016 and 2017, respectively.

Interest Expenses

Our interest expenses consist primarily of interest incurred as a result of our bank borrowings and convertible notes. Our interest expenses decreased 22.3% year-over-year in 2017, primarily due to the company repurchased a total of US\$394,300 of the Notes. Our interest expenses increased 25.9% year-over-year in 2016, primarily due to an increase in short-term and long-term borrowings.

Government Grants

Our government grants, which consisted of refunds on business taxes and VAT, totaled US\$4.9 million, US\$6.5 million and US\$3.2 million in 2015, 2016 and 2017, respectively.

Investment Income

Our investment income, which consisted of dividends from the respective long-term investments in companies including Color Life and Hopefluent, totaled US\$1.3 million, US\$3.3 million and US\$6.7 million in 2015, 2016 and 2017, respectively.

Impairment on Investments

We had nil, US\$2.2 million and US\$2.8 million impairment on investments in 2015, 2016 and 2017, respectively. The impairment resulted from the deteriorating financial condition of Sindeo, of which company we hold 11.03% equity interest.

Income Tax (Expenses) Benefit

Our income tax expenses decreased 14.2% year-over-year in 2017, primarily due to the reversal of previously recorded unrecognized tax benefits and related interest and penalties. We had US\$25.0 million income tax expenses in 2016, primarily due to no reversal of withholding tax for the amount of future distributed earnings in 2016, compared to an income tax benefit of US\$5.9 million in 2015. Our effective tax rate was 28.1%, 17.3% and 56.8% in 2015, 2016 and 2017, respectively. In 2015, 2016 and 2017, we recorded changes in valuation allowances of US\$28.0 million, US\$30.9 million and US\$5.2 million, respectively, primarily attributable to operating losses arising from entities operating online real estate brokerage service and not anticipating sufficient taxable income in foreseeable future.

B. Liquidity and Capital Resources

Historically, we have financed our liquidity requirements primarily through cash generated from operations, bank borrowings and equity financings. As of December 31, 2017, we had US\$228.3 million in cash and cash equivalents, which primarily consisted of cash and bank deposit, US\$223.0 million in restricted cash and US\$55.8 million in short-term investments with maturity dates greater than three months but less than one year, compared to US\$336.5 million, US\$211.1 million and US\$42.9 million as of December 31, 2016, respectively. Of our cash and cash equivalents as of December 31, 2017, US\$215.5 million was held inside the PRC and US\$12.8 million was held outside of the PRC. See “Item 3.D. Key Information—Risk Factors—Risks related to doing business in China—We rely primarily on dividends and other distributions on equity paid by our subsidiaries, and any limitation on the ability of our subsidiaries to make payments to us could have a material adverse effect on our ability to conduct our business as well as our liquidity” and “—Government control of currency conversion may limit our ability to utilize our revenues effectively” for additional discussion. All of our investments with original stated maturities of 90 days or less are classified as cash and cash equivalents. All of our investments with original stated maturities of greater than 90 days and less than 365 days are classified as short-term investments. As of December 31, 2015, 2016 and 2017, we had short-term investments of US\$62.6 million, US\$42.9 million and US\$55.8 million, respectively.

As of December 31, 2017, we had U.S. dollar-denominated short-term borrowings of US\$190 million obtained from financial institutions in the United States. These bank borrowings are secured by bank deposits of approximately US\$223 million, placed with financial institutions in China. The cash deposits pledged for these bank borrowings could be released after we repay the bank borrowings in full. These pledged deposits are classified as restricted cash on our consolidated balance sheets. Certain of these bank borrowings included cross default provisions.

As of December 31, 2017, we had U.S.-dollar denominated bank borrowings of US\$248.9 million and RMB denominated bank borrowings of US\$102.2 million obtained from financial institutions in the United States and PRC, respectively.

These bank borrowings, which initially totaled US\$351.1 million, were incurred to satisfy the operating needs of our company and our offshore subsidiaries outside of the PRC, including repurchase of convertible notes, property acquisitions, leasehold improvement, construction, and other operational expenses.

Use of Proceeds	Amount
	(US\$ in thousands)
Repurchase of convertible notes	216,809
Acquisition of building	130,285
Other (leasehold improvement, construction, etc.)	4,000
Total	351,094

In December 2013 and January 2014, we sold an aggregate principal amount of US\$350.0 million and US\$50.0 million, respectively, of convertible senior notes due 2018 (the “2018 Notes”). The 2018 Notes were offered to qualified institutional buyers pursuant to Rule 144A under the Securities Act and certain non-U.S. persons in compliance with Regulation S under the Securities Act. The 2018 Notes may be converted, under certain circumstances, based on the current conversion rate of 50.9709 ADSs per US\$1,000 principal amount of 2018 Notes (after the five-for-one ADS ratio change effected in April 2014 and dividend distributions in August 2014 and March 2015, respectively), which is equivalent to a conversion price of approximately US\$19.62 per ADS. The net proceeds to us from the issuance of the 2018 Notes were US\$390.5 million. We are required to pay cash interest at an annual rate of 2.00% on the 2018 Notes. Interest is payable semiannually in arrears on June 15 and December 15 of each year, beginning on June 15, 2014. We incurred debt issuance costs of US\$9.5 million, which are being amortized to interest expense to the first put date of the 2018 Notes. On November 15, 2016, our company delivered a notice of repurchase right at the option of the holder to the holders of the 2018 Notes. Upon completion of the repurchase on December 15, 2016, an aggregate principal amount of US\$394.3 million of the notes was tendered for repurchase, representing approximately 98.6% of the outstanding principal amount of the 2018 Notes prior to such repurchase.

In September and November 2015, we sold an aggregate principal amount of US\$100.0 million and US\$200.0 million, respectively, of convertible notes due 2022 (the “2022 Notes”). The 2022 Notes were offered to certain non-U.S. persons in compliance with Regulation S under the Securities Act. The 2022 Notes may be converted, under certain circumstances, based on the current conversion rate of 27.9086 Class A ordinary shares per US\$1,000 principal amount of the 2022 Notes, which is equivalent to a conversion price of approximately US\$35.83 per Class A ordinary share or approximately US\$7.166 per ADS. The net proceeds to us from the issuance of the 2022 Notes were US\$300.0 million. We are required to pay cash interest at an annual rate of 1.5% on the 2022 Notes. Interest is payable semiannually in arrears on March 31 and September 30 of each year, beginning on March 31, 2016. We incurred debt issuance costs of US\$1.1 million, which are being amortized to interest expense to the first put date of the 2022 Notes.

The notes are senior unsecured obligations and rank (1) senior in right of payment to any of our indebtedness that is expressly subordinated in right of payment to the relevant notes, (2) equal in right of payment to any of our unsecured indebtedness that is not so subordinated, (3) effectively junior in right of payment to any of our secured indebtedness to the extent of the value of the assets securing such indebtedness, and (4) structurally junior to all indebtedness and other liabilities (including trade payables) of our subsidiaries and consolidated controlled entities.

We believe that our working capital is sufficient for our present requirements. We may, however, seek additional cash resources due to changed business conditions or other future developments, including selling debt securities or additional equity securities or obtaining credit facilities to meet our cash needs. See “Item 3.D. Key Information—Risks Factors—Risks related to our ADSs, ordinary shares and notes—We may need additional capital, and the sale of additional ADSs, notes or other equity securities could result in additional dilution to our shareholders, while the incurrence of debt may impose restrictions on our operations.”

Cash Flows

The following table sets forth information regarding our cash flows for the periods indicated:

	Year Ended December 31,		
	2015	2016	2017
	(US\$ in thousands)		
Consolidated statements of cash flows data			
Net cash generated from (used in) operating activities	(165,310)	131,240	126,889
Net cash (used in) generated from investing activities	58,562	(127,946)	(284,512)
Net cash generated from (used in) financing activities	587,471	(465,615)	34,010
Net (decrease) increase in cash and cash equivalents	463,161	(481,393)	(108,252)
Cash and cash equivalents at beginning of year	354,760	817,921	336,528
Cash and cash equivalents at end of year	817,921	336,528	228,276

Net Cash Generated from Operating Activities

We had net cash generated from operating activities of US\$126.9 million in 2017, which was primarily attributable to (1) our net income of US\$16.3 million during this period, (2) a decrease in loans receivable of US\$45.7 million provided to property buyers, real estate developers and other borrowers primarily as a result of bank loans deposited at relevant banks to secure our loans and (3) an increase of deferred revenue of US\$30.3 million primarily as a result of an increase in advance from customers, partially offset by (1) a decrease of US\$39.3 million in accrued expenses and other liabilities primarily due to a decrease in accrued unrecognized tax benefits and (2) a decrease in customers’ refundable fees of US\$22.7 million.

We had net cash generated from operating activities of US\$131.2 million in 2016, which was primarily attributable to a decrease in loans receivable of US\$251.0 million provided to property buyers, real estate developers and other borrowers primarily as a result of bank loans deposited at relevant banks to secure our loans, partially offset by (1) our net loss of US\$169.6 million, (2) a decrease in customers’ refundable fees of US\$27.6 million and (3) a decrease in accrued expenses and other liabilities of US\$17.6 million.

Net Cash Used in Investing Activities

Our net cash used in investing activities was US\$284.5 million in 2017, primarily attributable to (1) acquisition of short-term investment of US\$383.6 million, (2) origination of loans receivable of US\$212.8 million, (3) deposits for non-current assets of US\$55.5 million, partially offset by (1) proceeds from maturity of fixed-rate time deposits of US\$373.4 million and (2) repayment of loans receivable of US\$86.9 million.

Our net cash used in investing activities was US\$127.9 million in 2016, primarily attributable to (1) deposits for non-current assets of US\$128.6 million, (2) acquisition of fixed-rate time deposits of US\$73.8 million and (3) acquisition of property and equipment of US\$24.6 million, partially offset by (1) proceeds from maturity of fixed-rate time deposits of US\$90.0 million and (2) proceeds from disposal of an available-for-sale security of US\$13.1 million.

Net Cash Generated from (Used in) Financing Activities

Our net cash generated from financing activities was US\$34.0 million in 2017, primarily due to proceeds from long-term loans of US\$111.5 million, partially offset by (1) repayment of loans of US\$44.0 million and (2) a decrease in changes in restricted cash of US\$38.0 million.

Our net cash used in financing activities was US\$465.6 million in 2016, primarily due to (1) redemption of US\$394.3 million convertible senior notes 2018 Notes, (2) repayment of US\$182.4 million short-term loans, (3) repurchase of US\$136.6 million ordinary shares and (4) a US\$118.3 million decrease in changes in restricted cash, partially offset by (1) proceeds of US\$296.6 million from short-term loans and (2) proceeds of US\$67.7 million from long-term loans.

Capital Expenditures

Our capital expenditures were US\$137.6 million, US\$104.6 million and US\$100.1 million in 2015, 2016 and 2017, respectively. There are also constructions and development/renovation needs. The Company bought more land and properties. We expect our capital expenditures to increase in the future as our business continues to develop and expand as we make further improvements to our websites and our services.

Inflation

According to the National Bureau of Statistics of China, the change in the consumer price index in China was 1.4%, 2.1% and 1.6% in 2015, 2016 and 2017, respectively. Recent inflation has not had a material impact on our results of operations. However, we cannot assure you that we will not be adversely affected by inflation or deflation in China in the future.

C. Research and Development, Patents and Licenses, etc.

We have a team of experienced engineers who are primarily based at our headquarters in Beijing. We recruit most of our engineers locally and have established various recruiting and training programs with leading universities in China. We compete aggressively for engineering talent to help us address challenges such as Chinese language processing, information retrieval and high performance computing. In each of 2015, 2016 and 2017, our research and development expenditures, including share-based compensation expenses for research and development staff, were US\$40.4 million, US\$45.8 million, and US\$39.0 million, respectively, representing 4.6%, 5.0% and 8.8% of our total revenues for the same periods.

D. Trend Information

See “—A. Operating Results” of this Item 5 and “Item 3.D. Key Information—Risk Factors” of this annual report.

E. Off-Balance Sheet Arrangements

We do not currently have any material outstanding off-balance sheet arrangements or commitments. We have no plans to enter into transactions involving, or otherwise form relationships with, unconsolidated entities or financial partnerships established for the purpose of facilitating off-balance sheet arrangements or commitments.

F. Tabular Disclosure of Contractual Obligations

The following table sets forth our contractual obligations as of December 31, 2017:

	Payment due by period [*]				
	Total	Less than one year	One to three years	Three to five years	More than five years
	(US\$ in thousands)				
Convertible senior notes with principal and interest	297,065	5,700		291,365	-
Operating lease commitments	20,255	12,812	7,330	113	-
Capital commitment	117,732	117,732	-	-	-
Loan principal and interest expense obligation	351,094	236,985	26,039	-	88,070

* Our estimated liability for unrecognized tax benefits is included in accrued expenses and other liabilities. As of December 31, 2017, we had gross accrued unrecognized tax benefits and related interest and penalties of US\$144.9 million. As we are currently unable to make a reasonably reliable estimate of the possible change and the timing of payments in individual years in connection with these tax liabilities, such amounts were not included in the contractual obligation table.

Our 2018 Notes will mature in December 2018, unless earlier repurchased or converted into our ADSs based on the current conversion rate of 50.9709 ADSs per US\$1,000 principal amount of 2018 Notes (after the five-for-one ADS ratio change effected in April 2014 and dividend distributions in August 2014 and March 2015), which is equivalent to a conversion price of approximately US\$19.62 per ADS. The conversion rate is subject to certain corporate events. The interest will be payable semiannually in arrears on June 15 and December 15 of each year, beginning on June 15, 2014. Each holder of the 2018 Notes has the right to require us to repurchase for cash all or part of that holder's 2018 Notes on December 15, 2016, at a repurchase price equal to 100.0% of the principal amount of the 2018 Notes to be repurchased plus accrued and unpaid interest to, but excluding, the repurchase date. On November 15, 2016, our company delivered a notice of repurchase right at the option of the holder to the holders of the 2018 Notes. Upon completion of the repurchase on December 15, 2016, an aggregate principal amount of US\$394.3 million of the notes was tendered for repurchase, representing approximately 98.6% of the outstanding principal amount of the 2018 Notes prior to such repurchase.

Our 2022 Notes will mature in September and November 2022, respectively, unless earlier repurchased or converted into our ADSs based on the current conversion rate of 27.9086 Class A ordinary shares per US\$1,000 principal amount of the 2022 Notes, which is equivalent to a conversion price of approximately US\$35.83 per Class A ordinary share or approximately US\$7.166 per ADS. The conversion rate is subject to certain corporate events. The interest will be payable semiannually in arrears on March 31 and September 30 of each year, beginning on March 31, 2016.

Our payments under operating leases are expensed on a straight-line basis over the periods of the respective leases. Our lease arrangements have no renewal options, rent escalation clauses, restrictions or contingent rents and are all conducted with third parties, except for the building leased from a related party as disclosed in Note 20 to our consolidated financial statements included elsewhere in this annual report. In 2015, 2016 and 2017, total rental expenses for all operating leases were US\$33.8 million, US\$66.3 million and US\$22.6 million, respectively.

Our sublease rental income for 2017 was US\$15,085. Future minimum sublease receipts payments expected to be received under non-cancellable sublease agreements as of December 31, 2017 was US\$5,840.

Our loan principal and interest expense obligations relate to our U.S.-dollar denominated bank borrowings of US\$248.9 million and RMB denominated bank borrowings of US\$102.2 million obtained from financial institutions in the United States and PRC. US\$216.8 million of bank borrowings are secured by bank deposits of approximately US \$255.1 million, placed with financial institutions in China. These pledged deposits are classified as restricted cash on our consolidated balance sheets.

US\$134.3 million of bank borrowings were secured by building and construction in progress as of December 31, 2017.

Our capital commitments relate primarily to the purchase of an office building in Chongqing and the construction project of a building in Hangzhou. Both properties will be used as our new branch offices.

G. Ratio of Earnings to Fixed Charges

The following table sets forth our ratio of earnings to fixed charges for each of the periods indicated:

	Year Ended December 31,				
	2013	2014	2015	2016	2017
Ratio of earnings to fixed charges ⁽¹⁾	20.4	16.2	—	—	1.0

(1) For the purpose of calculating such ratios, “earnings” consist of income from continuing operations before income taxes and noncontrolling interests plus fixed charges and “fixed charges” consist of interest expense (net of capitalized portion), capitalized interest, amortization of debt discount and one-third of our rental expenses relating to operating leases, which we deem representative of an interest factor.

H. Safe Harbor

See “Forward-Looking Statements.”

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. Directors and Executive Officers

The following table sets forth certain information relating to our directors and executive officers as of the date of this annual report. The business address of each of our directors and executive officers is Block A, No. 20 Guogongzhuang Middle Street, Fengtai District, Beijing 100070, the People’s Republic of China

Name	Age	Position
Vincent Tianquan Mo	53	Executive chairman of the board of directors, chief executive officer
Quan Zhou	60	Director
Qian Zhao	49	Independent director
Sam Hanhui Sun	45	Independent director
Mingqiang Bi	47	Independent director
Zhizhi Gong	38	Director
Jingbo Wang	39	Director
Frank Hua Lei	38	Chief financial officer
Jian Liu	41	President
Zhihong Zhang	47	Chief operations officer

Vincent Tianquan Mo is our founder and has served as our executive chairman of our board of directors since 1999 and as our chief executive officer since August 2014. Prior to founding our company, Mr. Mo served as an executive vice president at Asia Development and Finance Corporation from 1996 to 1998 and a general manager for Asia at Teleres, a venture of Dow Jones & Co. and AEGON USA to provide online commercial real estate information services, from 1994 to 1996. He currently serves as a director on the board of directors of Hopefluent Group Holdings Limited, a Hong Kong-listed company, and is the secretary general of the China Real Estate Index System, a real estate research publication operated by us. Mr. Mo holds a bachelor’s degree in engineering from South China University of Technology, a master of science degree in business administration from Tsinghua University and a master of arts degree in economics from Indiana University. Mr. Mo is the uncle of Mr. Dai, who is a director of our company (until February 2016 when he resigned) and our former president and chief executive officer.

Quan Zhou has served as a director of our company since 2000. Mr. Zhou has been a managing member of the general partner of IDG Technology Venture Investments, L.P. and its successor funds for over 15 years. Mr. Zhou is also serving as a director of the general partner of each of IDG-Accel China Growth Fund I, IDG-Accel China Capital Fund I and their respective successor funds since 2005. He is also currently acting as a director of the general partner of IDG China Venture Capital IV L.P. and IDG China Capital Fund III L.P. He is serving as the president and a director of IDG VC Management Ltd. He currently serves on the boards of a number of private companies, including Superdata Technology (Asia) Limited, OriGene Technologies Inc., COFCO Womai Limited, Shanghai Hua Mei Medical Investment Management Limited, Circle Internet Financial Limited, Yirendai Ltd., a New York Stock Exchange-listed company, CosmoChina International Inc., Xunlei Limited, a company listed on NASDAQ, CASI Pharmaceuticals, Inc., a company listed on NASDAQ, Yesky.com Inc., CreditEase Holdings (Cayman) Limited, MEMSIC Inc., Jupiter Inc., Wusong Technology Limited, Nanyang Green Silicon Co., Ltd., and Luck Alliance Limited. He was the president of IDG Technology Venture Investment, Inc. from mid 1990s until 2012. Mr. Zhou holds a bachelor’s degree in chemistry from the China Science and Technology University, a master’s degree in chemical physics from the Chinese Academy of Sciences, and a Ph.D degree in fiber optics from Rutgers University.

Qian Zhao has served as an independent director of our company and chair of our nominating and corporate governance committee since September 2010. Mr. Zhao is a founding partner of CXC China Sustainable Growth Fund, a private equity fund that makes investments in China-based companies. Mr. Zhao was a lawyer by training and is admitted to practice law in both China and New York. Mr. Zhao co-founded Haiwen & Partners in 1992, a preeminent China corporate finance law firm in Beijing. He worked in Sullivan & Cromwell's New York office from 1998 to 2000 and Skadden, Arps, Slate, Meagher & Flom LLP and Affiliates' Beijing office from 2000 to 2003. Mr. Zhao is currently an independent director of Trina Solar Limited, a New York Stock Exchange-listed company. Mr. Zhao was a managing director of CXC Capital, Inc., which was the management company of CXC China Sustainable Growth Fund from 2008 to 2011, and president of Camelot Information Systems Inc., a company listed on NASDAQ, from 2011 to 2013. Mr. Zhao was the general counsel and chief investment officer of BGI Shenzhen from 2014 to 2015. Mr. Zhao received a J.D. degree from the New York University School of Law in 1998 and an LL.B degree from University of International Business & Economics, Beijing, in 1990.

Sam Hanhui Sun has served as an independent director of our company and chairman of our audit committee since September 2010. Mr. Sun currently serves as an independent director and audit committee chair of Yirendai Ltd., a New York Stock Exchange-listed company, and an independent director and audit committee chair of CAR Inc., a Hong Kong Stock Exchange-listed company. From January 2010 to September 2015, Mr. Sun assumed a couple of positions at Qunar Cayman Islands Limited, a company listed on NASDAQ, including serving as Qunar's president from May 2015 to September 2015 and its chief financial officer from January 2010 to April 2015. He was chief financial officer of Beijing Ruifeng Co. Ltd. from May 2009 to September 2009 and KongZhong Corporation, a Nasdaq-listed company, from February 2007 to April 2009. Mr. Sun was also an independent director and audit committee member of KongZhong Corporation from July 2005 through January 2007. From 2004 to 2007, Mr. Sun took various financial controller roles at Microsoft China R&D Group, Maersk China Co. Ltd. and our company. From 1995 to 2004, Mr. Sun worked in KPMG's auditing practice, including eight years at KPMG in Beijing where he was an audit senior manager, and two years at KPMG in Los Angeles, California. Mr. Sun earned a bachelor's degree in business administration from the Beijing Institute of Technology in 1993. He is a Certified Public Accountant in China.

Mingqiang Bi has served as an independent director of our company and a member of our audit committee since June 2017. Mr. Bi is the managing director of China International Capital Corporation ("CICC"). As a proven financial specialist, he has exceptional international experience with various C-level positions throughout key global markets. Before he joined CICC, Mr. Bi worked for Industrial and Commercial Bank of China (ICBC) for over 20 years, where he held multiple positions, including, among others, Chairman of ICBC Standard Bank, Head of Credit & Investment Management in ICBC Group, Country Head of ICBC USA Branch, CEO of ICBC Canada Branch. Mr. Bi earned two bachelor's degrees and a master's degree from Tsinghua University. He received his Ph.D. in finance from Renmin University of China.

Zhizhi Gong has served as a director of our company since May 2016. Ms. Gong is a managing director of the Carlyle Group where she focuses on Asia private equity investment and buyout opportunities. She joined the Carlyle Group in 2010 and is based in Beijing. Ms. Gong also serves as chairwoman of the supervisory board of Focus Media Information Technology Co., Ltd., a company listed on the Shenzhen Stock Exchange. In 2015, Ms. Gong was also a member of the board of directors of Natural Beauty BioTechnology Limited, a company listed on the Hong Kong Stock Exchange. Prior to joining the Carlyle Group, Ms. Gong was a principal at Apax Partners, where she was a founding member of the Greater China team. Prior to that, Ms. Gong worked at the investment banking department at China International Capital Corporate Limited. Ms. Gong received her M.B.A. from Harvard Business School and B.A. in economics from Peking University.

Jingbo Wang has served as a director of our company since June 2017. Mr. Wang joined IDG Capital in 2011 as a partner, covering its private equity investments and mergers and acquisitions transactions. Prior to joining IDG Capital, Mr. Wang worked on the North America Growth Capital and Buyout team at D. E. Shaw and Co. in New York, where he was actively involved in several of the firm's largest investments in the energy sector. Mr. Wang also worked as a senior researcher of ExxonMobil Corporate Strategic Research. Mr. Wang received his Ph.D. from Cornell University and B.E. from Tsinghua University.

Frank Hua Lei has been the acting chief financial officer of our company since September 22, 2016 and was appointed as our chief financial officer on November 1, 2016. He joined us in 2009 and has accumulated extensive experience across multiple functions in our company. Prior to the recent appointments, Mr. Lei had been the managing director of our company's investment management division and the deputy chief financial officer in 2015 and 2014, respectively. Mr. Lei holds a Ph.D. in finance from University of the West of England in the United Kingdom, a Master degree in banking and finance from Loughborough University in the United Kingdom and a Bachelor degree in economics from Beijing Forestry University in China.

Jian Liu joined us in April 2000 and was appointed from our chief operations officer to our president on July 1, 2016. Mr. Liu is in charge of overseeing the operations and management of our business operations. Mr. Liu was also our first chief information officer. Prior to joining us, Mr. Liu worked at the information center of Ningbo Economic Committee in Zhejiang Province. Mr. Liu holds a bachelor's degree in computer science from Ningbo University.

Zhihong Zhang was appointed as our chief operations officer on July 12, 2016. Ms. Zhang served as senior vice president of our company from April 2016 to July 2016 and was in charge of the financial and operation optimization. Prior to that, she served as the financial director, vice president of the resale group and vice president of the sales department of our company. She holds an MBA degree from China Foreign Economic and Trade University.

B. Compensation

Compensation of Directors and Executive Officers

Our executive directors and executive officers receive compensation in the form of salaries, annual bonuses and share options. Our independent directors receive annual compensation in connection with the performance of their duties. All directors receive reimbursements from us for expenses necessarily and reasonably incurred by them for providing services to us or in the performance of their duties. We have entered into service contracts with our executive officers. None of these service contracts provide benefits to our directors and executive officers upon termination.

In 2017, we paid aggregate cash compensation of approximately US\$869,774 to our directors and executive officers as a group. We do not pay or set aside any amounts for pension, retirement or other similar benefits for our officers and directors.

Share Options

1999 Stock Incentive Plan

At a meeting held on September 1, 1999, our board of directors reserved a total of 12.0% of our fully diluted share capital for issuance upon the exercise of options to be granted to our executive directors, officers and employees or their affiliated entities from time to time. On September 1, 1999, our shareholders approved the stock-related award incentive plan (the "1999 Stock Incentive Plan"). The number of options awarded to a person was based on the person's potential ability to contribute to our success, the person's position with us and other factors deemed relevant and necessary by our board of directors. Under the 1999 Stock Incentive Plan, we awarded to several of our employees and directors options to purchase 9,874,672 ordinary shares of our company. As of December 31, 2017, options to purchase 2,421,562 ordinary shares remained outstanding. Options generally do not vest unless the grantee remains under our employment or in service with us on the given vesting date. However, the 1999 Stock Incentive Plan provides that in circumstances where there is a change in the control of our company, if no substitution or assumption is provided by the successor corporation, the outstanding options will automatically vest and become exercisable for a period of 30 days, after which such options will terminate. The termination date for the options granted is 10 years after the date of grant.

a. Standard Stock Options

From September 1, 1999 to September 30, 2006, we awarded standard stock options exercisable to acquire Class A or Class B ordinary shares of our company. All standard stock options were granted to employees and directors and vested over the requisite service periods of three to four years using a graded vesting. The maturity life of the standard stock options was 10 years originally. On April 20, 2010, our board of directors resolved to extend the maturity life of the standard stock option 10 years to 15 years.

From 2001 to 2003, we awarded 1,739,500 standard stock options, classified as liability awards, with exercise prices ranging from HK\$1.00 to HK\$5.00. In April 2010, we agreed with the grantees to modify the Hong Kong dollar exercise currency to U.S. dollars. The modified exercise prices of these options range from US\$0.13 to US\$0.64.

b. Special Stock Options

We have awarded 15,711,200 special stock options to our employees and directors, with exercise prices ranging from US\$2.50 to US\$5.31, since December 31, 2006. Terms for special stock options are the same as standard stock options, except that two special stock options are exercisable into one Class A ordinary share. These special stock options vest 10.0% after the first year of service, 20% after the second year of service, 40.0% after the third year of service and 30.0% after the fourth year of service, except for special stock options granted in September 2010, which vest 20.0% after the first year of service, 20.0% after the second year of service, 30.0% after the third year of service and 30.0% after the fourth year of service. The maturity life of the special stock options is 10 years.

Our board of directors may amend, alter, suspend or terminate the 1999 Stock Incentive Plan at any time, provided, however, that our board of directors must first seek the approval of our shareholders and, if such amendment, alteration, suspension or termination would adversely affect the rights of an optionee under any option granted prior to that date, the approval of such optionee. Without further action by our board of directors, our 1999 Stock Incentive Plan has no specified termination date.

2010 Stock Incentive Plan

We adopted our 2010 stock incentive plan (the “2010 Stock Incentive Plan”) on August 4, 2010. The purpose of our 2010 Stock Incentive Plan is to recognize and acknowledge the contributions made to our company by eligible participants and to promote the success of our business. By providing an opportunity to have a personal stake in our company, our 2010 Stock Incentive Plan aims to:

- attract and retain the best available personnel;
- to provide an additional incentive to our employees, directors and consultants; and
- to promote the success of our business.

As of March 31, 2018, we had awarded options to purchase 8,969,732 of our ordinary shares under the 2010 Stock Incentive Plan, with an exercise price per share ranging from US\$10.63 to US\$30.00.

a. Eligible Participants

Under the 2010 Stock Incentive Plan, our board of directors or its designated committee may, at its discretion, offer to grant an option to subscribe for such number of our ordinary shares at an exercise price as our directors may determine to the following parties:

- any full-time or part-time employees, executives or officers of us, our parent or any of our subsidiaries;
- any directors, including non-executive directors and independent non-executive directors, of us, our parent or any of our subsidiaries;
- any advisers, consultants and agents to us or any of our subsidiaries; and
- such other persons who, in the sole opinion of our board of directors or its designated committee, has made contributions to the business or other development of us.

b. Maximum Number of Ordinary Shares

The maximum number of ordinary shares in respect of which options may be granted (including ordinary shares in respect of which options, whether exercised or still outstanding, have already been granted) under the 2010 Stock Incentive Plan may not in the aggregate exceed 10.0% of the total number of ordinary shares in issue from time to time, including ordinary shares issuable upon conversion of any preferred shares in issue from time to time. As of March 31, 2018, there were outstanding options to purchase 3,327,647 of our ordinary shares under the 2010 Stock Incentive Plan, of which options to purchase 2,113,677 ordinary shares were exercisable.

c. Price of Ordinary Shares

The determination by our board of directors, or its designated committee, of the exercise price will be by reference to the fair market value of the ordinary shares, and the exercise price may be the same as, higher, or lower than the fair market value, except for options or awards which are incentive stock options or subject to Rule 409A of the Internal Revenue Code. If there exists a public market for our ordinary shares, including our ADSs, the fair market value of our ordinary shares will be (1) the closing price for the last market trading day prior to the time of the determination (or, if no closing price was reported on that date, on the last trading date on which a closing price was reported) on the stock exchange determined by our board of directors, or its designated committee, to be the primary market for our ordinary shares or ADSs, or (2) if the ordinary shares are not traded on any such exchange or national market system, the average of the closing bid and asked prices of an ordinary shares on the New York Stock Exchange for the day prior to the time of the determination (or, if not such prices were reported on that date, on the last date on which such prices were reported), in each case, as reported in The Wall Street Journal or such other source as the board of directors or its designated committee deems reliable. If there is no established market for our ordinary shares, our board of directors, or its designated committee, will determine the fair market value of our ordinary shares in good faith by reference to the placing price of the latest private placement of our ordinary shares and the development of our business operations since such latest private placement.

d. Performance Criteria

The 2010 Stock Incentive Plan allows our board of directors, or its designated committee, to establish the performance criteria when granting stock options on the basis of any one of, or combination of, increase in our share price, earnings per share, total shareholder return, return on equity, return on assets, return on investment, net operating income, cash flow, revenue, economic value-added, personal management objectives, or other measures of performance selected by our board of directors, or its designated committee. Partial achievement of the specified criteria may result in a vesting corresponding to the degree of achievement as specified in the award agreement with the relevant optionee.

e. Time of Exercise of Options

The time and conditions under which an option may be exercised will be determined by the board of directors, or its designated committee, under the terms of the 2010 Stock Incentive Plan and as specified in the award agreement with a grantee. Notwithstanding the foregoing, in the case of any options granted to an officer, director or consultant that may become exercisable, the award agreement governing such grant may provide that the options may become exercisable, subject to reasonable conditions such as the officer, director or consultant's continuous service at any time or during any period established in the award agreement governing such grant.

f. Administration

Our board of directors has established a stock option committee, comprised of a single member, Mr. Mo, to administer the 2010 Stock Incentive Plan with respect to option grants to non-officer/director employees as well as consultants. Our compensation committee has the authority under the 2010 Stock Incentive Plan to determine stock option grants to our officers and directors.

g. Termination

Unless terminated earlier, the 2010 Stock Incentive Plan will continue for a term of 10 years. Our board of directors has the authority to amend or terminate the 2010 Stock Incentive Plan subject to shareholder approval with respect to certain amendments. However, no such action may impair the rights of any grantee of any options unless agreed by the grantee.

2015 Stock Incentive Plan

We adopted our 2015 stock incentive plan (the "2015 Stock Incentive Plan") on July 3, 2015. The purpose of our 2015 Stock Incentive Plan is to recognize and acknowledge the contributions made to our company by eligible participants and to promote the success of our business. By providing an opportunity to have a personal stake in our company, our 2015 Stock Incentive Plan aims to:

- attract and retain the best available personnel;
- to provide an additional incentive to our employees, directors and consultants; and
- to promote the success of our business.

As of March 31, 2018, we had awarded options to purchase 7,851,000 of our ordinary shares under the 2015 Stock Incentive Plan, with an exercise price per share ranging from US\$3.62 to US\$5.44, and granted 1,885,657 restricted shares.

a. Eligible Participants

Under our 2015 Stock Incentive Plan, our board of directors or its designated committee may, at its discretion, offer to grant an option to subscribe for such number of our ordinary shares at an exercise price as our directors may determine to the following parties:

- any full-time or part-time employees, executives or officers of us, our parent or any of our subsidiaries;
- any directors, including non-executive directors and independent non-executive directors, of us, our parent or any of our subsidiaries;
- any advisers, consultants and agents to us or any of our subsidiaries; and
- such other persons who, in the sole opinion of our board of directors or its designated committee, has made contributions to the business or other development of us.

b. Maximum Number of Ordinary Shares

The maximum number of ordinary shares in respect of which options may be granted for each fiscal year during which the 2015 Stock Incentive Plan is effective may be up to 1.5% of our outstanding ordinary shares as of the last day of the previous fiscal year. As of March 31, 2018, there were outstanding options to purchase 2,614,300 of our ordinary shares under the 2015 Stock Incentive Plan, of which options to purchase 374,860 ordinary shares were exercisable.

c. Price of Ordinary Shares

The determination by our board of directors, or its designated committee, of the exercise price will be by reference to the fair market value of the ordinary shares, and the exercise price may be the same as, higher, or lower than the fair market value, except for options or awards which are incentive stock options or subject to Rule 409A of the Internal Revenue Code. If there exists a public market for our ordinary shares, including our ADSs, the fair market value of our ordinary shares will be (1) the closing price for the last market trading day prior to the time of the determination (or, if no closing price was reported on that date, on the last trading date on which a closing price was reported) on the stock exchange determined by our board of directors, or its designated committee, to be the primary market for our ordinary shares or the New York Stock Exchange, whichever is applicable, or (2) if the Ordinary Shares are not traded on any such exchange or national market system, the average of the closing bid and asked prices of an ordinary share on the New York Stock Exchange for the day prior to the time of the determination (or, if no such prices were reported on that date, on the last date on which such prices were reported), in each case, as reported in The Wall Street Journal or such other source as the board of directors or its designated committee deems reliable. If there is no established market for our ordinary shares, our board of directors, or its designated committee, will determine the fair market value of our ordinary shares in good faith by reference to the placing price of the latest private placement of our ordinary shares and the development of our business operations since such latest private placement.

d. Performance Criteria

The 2015 Stock Incentive Plan allows our board of directors, or its designated committee, to establish the performance criteria when granting stock options on the basis of any one of, or combination of, increase in our share price, earnings per share, total shareholder return, return on equity, return on assets, return on investment, net operating income, cash flow, revenue, economic value-added, personal management objectives, or other measures of performance selected by our board of directors, or its designated committee. Partial achievement of the specified criteria may result in a vesting corresponding to the degree of achievement as specified in the award agreement with the relevant optionee.

e. Time of Exercise of Options

The time and conditions under which an option may be exercised will be determined by the board of directors, or its designated committee, under the terms of the 2015 Stock Incentive Plan and as specified in the award agreement with a grantee. Notwithstanding the foregoing, in the case of any options granted to an officer, director or consultant that may become exercisable, the award agreement governing such grant may provide that the options may become exercisable, subject to reasonable conditions such as the officer, director or consultant's continuous service at any time or during any period established in the award agreement governing such grant.

f. Dissolution, Liquidation or Change in Control

In the event of the proposed dissolution or liquidation of our company, our board of directors, or its designated committee, will notify the grantee as soon as practicable prior to the effective date of such proposed transaction. Any options will terminate immediately prior to the consummation of such proposed action. In the event of a change in control or a merger of our company, each option may be assumed or an equivalent stock option or right may be substituted by the successor corporation. In the event that no such substitution or assumption occurs, the outstanding options will automatically vest and become exercisable for a limited period of time as determined by our board of directors, or its designated committee, and such options will terminate upon the expiration of such period.

g. Termination

Unless terminated earlier, the 2015 Stock Incentive Plan will continue for a term of five years. Our board of directors has the authority to amend or terminate the 2015 Stock Incentive Plan subject to shareholder approval with respect to certain amendments. However, no such action may impair the rights of any grantee of any options unless agreed by the grantee.

The following table summarizes, as of the date of this annual report, the outstanding options and restricted shares that we granted to our current directors and executive officers:

Share options

Name	Number of Class A ordinary shares to be issued upon exercise of options	Number of Class B ordinary shares to be issued upon exercise of options	Exercise price per ordinary share (US\$)	Date of grant	Date of expiration
Mr. Mo ⁽¹⁾	225,000	—	5.00	December 31, 2006	December 30, 2026
	112,500	—	5.00	December 31, 2007	December 30, 2017
	112,500	—	5.00	December 31, 2008	December 30, 2018
	112,500	—	10.00	December 31, 2009	December 30, 2019
Media Partner / Mr. Mo ⁽¹⁾	500,000	—	10.625	September 17, 2010	September 17, 2020
	75,000	—	12.80	August 15, 2012	August 14, 2022
	154,251	—	30.00	March 31, 2015	March 31, 2025
	80,000	—	14.65	December 1, 2016	December 1, 2026
	184,251	—	—	August 29, 2017	August 29, 2027
Next Decade / Mr. Mo ⁽¹⁾	—	1,754,500	5.00	September 30, 2006	September 29, 2026
	112,500	—	5.00	December 31, 2007	December 30, 2017
	112,500	—	5.00	December 31, 2008	December 30, 2018
	112,500	—	5.00	December 31, 2009	December 30, 2019
	500,000	—	10.625	September 17, 2010	September 17, 2020
	75,000	—	12.80	August 15, 2012	August 14, 2022
	154,251	—	30.00	March 31, 2015	March 31, 2025
	80,000	—	14.65	December 1, 2016	December 1, 2026
	184,251	—	—	August 29, 2017	August 29, 2027
Quan Zhou	—	*	1.97	April 28, 2004	April 27, 2019
	*	—	5.00	December 31, 2006	December 30, 2021
	*	—	5.00	December 31, 2007	December 30, 2017
	*	—	5.00	December 31, 2008	December 30, 2018
	*	—	10.00	December 31, 2009	December 30, 2019
	*	—	30.00	March 31, 2015	March 31, 2025
	*	—	27.2	February 25, 2016	February 24, 2026
Qian Zhao	*	—	30.00	March 31, 2015	March 31, 2025
	*	—	27.2	February 25, 2016	February 24, 2026
Sam Hanhui Sun	*	—	30.00	March 31, 2015	March 31, 2025
	*	—	27.2	February 25, 2016	February 24, 2026
Jian Liu	*	—	10.625	September 17, 2010	September 16, 2020
	*	—	12.80	July 26, 2012	August 14, 2022
	*	—	30.00	March 31, 2015	March 31, 2025
	*	—	27.2	February 25, 2016	February 24, 2026
Frank Hua Lei	*	—	10.00	December 31, 2009	December 30, 2019
	*	—	10.625	September 17, 2010	September 16, 2020
	*	—	12.8	July 26, 2012	July 25, 2022
	*	—	30.00	March 31, 2015	March 31, 2025

	*	—	14.65	December 1, 2016	December 1, 2026
Zhihong Zhang	*	—	10.625	September 17, 2010	September 16, 2020
	*	—	12.80	July 26, 2012	August 14, 2022
	*	—	30.00	March 31, 2015	March 31, 2025
	*	—	14.65	December 1, 2016	December 1, 2026

* Upon exercise of all options granted, would beneficially own less than 1.0% of our outstanding ordinary shares.

(1) Represents options granted to Mr. Mo in his capacity as our executive chairman. Pursuant to resolutions passed by our board of directors on August 4, 2010, our board of directors resolved that such options be assigned and allocated to Media Partner and Next Decade.

Restricted shares

<u>Name</u>	<u>Restricted Shares</u>	<u>Date of grant</u>	<u>Date of expiration</u>
Jian Liu	408,350	August 29, 2017	August 28, 2027
Frank Hua Lei	150,000	August 29, 2017	August 28, 2027
Zhihong Zhang	200,000	August 29, 2017	August 28, 2027

C. Board Practices

Board of Directors

Our board of directors currently consists of six members. A director is not required to hold any shares in our company by way of qualification. A director may vote with respect to any contract or transaction in which he or she is materially interested provided the nature of the interest is disclosed prior to its consideration and any vote on such contract or transaction. Our board of directors may exercise all the powers of the Company to borrow money, mortgage its business, property and uncalled capital, and issue debentures or other securities whenever money is borrowed or as security for any obligation of the company or of any third party. None of our non-executive directors has a service contract with us that provides for benefits upon termination of employment.

Duties of Directors

Under Cayman Islands law, our directors have a duty of loyalty to act honestly in good faith with a view to our best interests. Our directors also have a duty to exercise the care, diligence and skills that a reasonably prudent person would exercise in comparable circumstances. In fulfilling their duty of care to us, our directors must ensure compliance with our fifth amended and restated memorandum and articles of association. We have, in certain circumstances, the right to seek damages against our directors if a duty owed by our directors is breached.

Our board of directors has overall responsibility for managing our operations. The functions and powers of our board of directors include, among others:

- convening shareholders' meetings and reporting its work to shareholders at such meetings;
- implementing shareholders' resolutions;
- determining our business plans and investment proposals;
- formulating our profit distribution plans and loss recovery plans;
- determining our debt and finance policies and proposals for the increase or decrease in our registered capital and the issuance of debentures;
- formulating our major acquisition and disposition plans, and plans for merger, division or dissolution;
- proposing amendments to our fifth amended and restated memorandum and articles of association; and
- exercising any other powers conferred by the shareholders' meetings or under our fifth amended and restated memorandum and articles of association.

Board Committees

Audit Committee. Our audit committee consists of Sam Hanhui Sun, who chairs our audit committee, Qian Zhao and Mingqiang Bi. Our board of directors has determined that all of our audit committee members are “independent directors” within the meaning of Section 303A of the New York Stock Exchange Listed Company Manual and meet the criteria for independence set forth in Section 10A of the Exchange Act. In addition, our board of directors has determined that Sam Hanhui Sun is qualified as an audit committee financial expert within the meaning of the SEC rules and regulations.

Our audit committee is responsible for, among other things:

- Appointing, retaining, terminating, overseeing and determining compensation of the independent auditor. The independent auditor shall report directly to the Committee. The Committee has the sole authority to approve the hiring and discharging of the independent auditors, all engagement fees and terms thereof and, to the extent permissible under applicable regulatory guidelines, all non-audit engagements of the independent auditors.
- Reviewing the scope and results of the annual audit with the independent auditor.
- Reviewing and discussing, with the internal auditors or the person(s) in the financial department acting as internal auditor(s), the overall scope and plans for their audits and determine whether the internal audit function has the appropriate resources and expertise.
- Reviewing and discussing with management and the independent auditors, the adequacy and effectiveness of our disclosure controls, internal accounting and financial controls, the quality of the financial and accounting personnel, and any relevant recommendations.
- Discussing our guidelines and policies with respect to risk assessment and risk management, reviewing contingent liabilities and risks that may be material to us, and reviewing major legislative, regulatory and accounting developments which could materially impact our contingent liabilities and risks.
- Reviewing and discussing with management and the independent auditors the annual audited financial statements and unaudited quarterly financial statements and proposed filings with the SEC, including reviewing our specific disclosures under “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and among others, discussing the following matter with the independent accountants: (1) the quality as well as acceptability of the accounting principles applied in the financial statements, (2) new or changed regulatory or accounting policies (including an analysis of the effect of alternative GAAP methods); off-balance sheet structures; significant estimates, judgments, uncertainties or unusual transactions; and accounting policies relating to significant financial statement items, and (3) financial statement presentations.
- Reviewing the reports prepared by management and by our independent auditors, assessing the adequacy and effectiveness of our internal controls and procedures, prior to the inclusion of such reports in our periodic filings as required under SEC rules. The Committee reviews disclosures regarding our internal controls that are required to be included in SEC reports.
- Reviewing on a regular basis management’s assessment (and the basis therefore) of the adequacy and effectiveness of our system of disclosure controls and procedures, including by meeting periodically with our management, independent auditors and legal counsel to review their assessment of such disclosure controls and procedures and to review, before its release, the disclosure regarding such system of disclosure controls and procedures required under SEC rules to be contained in our periodic filings.
- Recommending to our board of directors whether the audited financial statements are satisfactory to be included in our annual or other reports to the SEC.
- At least annually, reviewing any management letters or internal control reports prepared by the independent auditors or our internal auditors and responses to prior management letters, and reviewing with the independent auditors our internal quality control and financial controls, including the budget, staffing and responsibilities of our financial and accounting staff.

- Reviewing and discussing our earnings press releases, as well as financial information and earnings guidance provided to analysts and rating agencies, including the type and presentation of information to be included in earnings press releases.
- Periodically meeting in separate sessions with management, with internal auditors (or other personnel responsible for the internal audit function) and with independent auditors.
- Reviewing with the independent auditor any audit problems or difficulties the independent auditor encountered in the course of audit work (e.g., restrictions on the scope of the independent auditor's activities or access to requested information and any significant disagreements with management) and the management's response. The audit committee shall also be responsible for the resolution of disagreements between management and the independent auditors regarding financial reporting.
- Setting clear hiring policies for employees or former employees of the independent auditors.
- Reviewing and approving or prohibiting all proposed related-party transactions in accordance with our related party transaction policy and procedures.
- Monitoring compliance with and reviewing, and approving or prohibiting, actual and potential conflicts with our code of business conduct and ethics, including reviewing the adequacy and effectiveness of our procedures to ensure proper compliance.
- Establishing procedures for (1) the receipt, retention and treatment of complaints received by us regarding accounting, internal accounting controls, or auditing matters, and (2) the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters. Review periodically with management and our internal accounting department these procedures and any significant complaints received.
- Pre-approving all audit services and permissible non-audit services by the independent auditors, as set forth in Section 10A of the Exchange Act and the rules and regulations promulgated thereunder by the SEC. The audit committee may establish pre-approval policies and procedures, as permitted by Section 10A of the Exchange Act and the rules and regulations promulgated thereunder by the SEC, for the engagement of independent auditors to render services to us, including but not limited to policies that would allow the delegation of pre-approval authority to one or more members of the audit committee, provided that any pre-approvals delegated to one or more members of the audit committee are reported to the audit committee at its next scheduled meeting.
- Evaluating at least annually, the independent auditors' qualifications, performance and independence, which evaluation shall include a review and evaluation of the lead partner of the independent auditor and consideration whether there should be a rotation of the lead partner or independent auditing firm, and take appropriate action to oversee the independence of the independent auditors.
- At least annually, obtaining and reviewing a report by the independent auditors describing: (1) the audit firm's internal quality-control procedures, (2) any material issues raised by the most recent internal quality-control review, or peer review, of the audit firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the audit firm, and any steps taken to deal with any such issues, (3) all relationships between the independent auditors and us to enable the audit committee to assess the auditors' independence, and (4) any other matters required to be included in a letter from the independent auditors pursuant to applicable requirements of the Public Company Accounting Oversight Board regarding independent auditor's communications with the audit committee concerning independence.
- Reviewing and reassessing, at least annually, the audit committee's performance and the adequacy of its charter and report its conclusion and any recommendations to our board of directors.
- Reporting regularly to the full board of directors.
- Investigating matters came to its attention at the company's expenses.

Nominating and Corporate Governance Committee. We have established a nominating and corporate governance committee, which is responsible for identifying individuals qualified to become directors and recommends director nominees to be approved by our board of directors. The members of our nominating and corporate governance committee include Qian Zhao, who chairs our nominating and corporate governance committee, and Mr. Mo, our executive chairman.

Compensation Committee. Our compensation committee consists of Mr. Mo, who chairs our compensation committee, and Qian Zhao.

Our compensation committee is responsible for:

- Establishing our general compensation philosophy, and, in consultation with senior management, overseeing the development and implementation of compensation programs.
- At least annually, reviewing and evaluating and, if necessary, revising our compensation plans, policies and programs adopted by the management.
- At least annually, reviewing and approving corporate goals and objectives relevant to compensation of the CEO and evaluate the CEO's performance in light of those goals and objectives.
- At least annually, either as a committee or together with the other independent directors (as directed by our board of directors), determining and approving, based on the evaluation described above, all compensation arrangements with the CEO including, without limitation: (1) the annual base salary level, (2) the annual incentive opportunity level, (3) the long-term incentive opportunity level, (4) employment agreements, severance arrangements and change-in-control agreements/provisions, in each case as, when and if appropriate, and (5) any special or supplemental benefits. In determining the long-term incentive component of the CEO's compensation, the compensation committee shall consider our performance and relative stockholder return, the value of similar incentive awards to chief executive officers at comparable companies, and the awards given to the CEO in past years. The compensation committee may choose to discuss the CEO's compensation with the board of directors.
- Reviewing and approving, or making recommendations to our board of directors with respect to our non-CEO executive officer compensation, incentive-compensation plans and equity-based plans. The compensation committee shall attempt to ensure that our compensation scheme is effective in retaining and attracting key employees, implements business strategies and objectives for enhanced shareholder value, and is administered in a fair and equitable manner consistent with our compensation philosophy. The compensation committee shall also seek the input of the Chief Executive Officer with respect to the performance evaluation and compensation of executives other than the Chief Executive Officer.
- Periodically reviewing the compensation of our directors and approving changes or making recommendations to our board of directors with respect thereto.
- Evaluating periodically the internal equity and external competitiveness of compensation of the CEO, the other executive officers, and key management personnel and initiating actions or recommending changes to our board of directors, as appropriate.
- Advising on the setting of compensation for officers whose compensation is not subject to the approval of the compensation committee.
- Managing and reviewing annually and approving any long-term incentive compensation or equity or stock option plans, programs or similar arrangements, annual bonuses, employee pension and welfare benefit plans. With respect to each plan the compensation committee shall have responsibility for:
 - setting performance targets under all annual bonus and long-term incentive compensation plans as appropriate;
 - certifying that any and all performance targets used for any performance-based equity compensation plans have been met before payment of any executive bonus or compensation;
 - approving all amendments to, and terminations of, all compensation plans and any awards under such plans or any inducement grant of options made to a person not previously an employee or director;

- granting any awards under any performance-based annual bonus, long-term incentive compensation and equity compensation plans to executive officers or current employees with the potential to become the CEO or an executive officer, including stock options and other equity rights (e.g., restricted stock or stock purchase rights);
 - approving which executive officers are entitled to awards under our stock option plan(s);
 - repurchasing securities from terminated employees; and
 - conducting an annual review of all compensation plans, including reviewing each plan's administrative costs, reviewing current plan features relative to any proposed new features, and assessing the performance of each plan's internal and external administrators if any duties have been delegated.
- Reviewing and approving officer and director indemnification and insurance matters.
 - Reviewing and approving any employee loan in an amount equal to or greater than US\$250,000 unless such transaction is subject to the approval of the audit committee as a related-party transaction.
 - Reviewing and considering on an annual basis whether the compensation policies and practices for all employees are reasonably likely to have a material adverse effect on us in accordance with SEC rules.
 - Providing the compensation committee reports on executive compensation to our board of directors.
 - Receiving, reviewing and conferring with the audit committee with respect to any concerns raised by any parties directly or indirectly to the compensation committee and take action in response to such concerns as may be deemed appropriate by the compensation committee.
 - Reviewing and approving the annual report on executive compensation for inclusion in our annual report on Form 20-F filed with the SEC.
 - Administering, interpreting and taking all other actions necessary or appropriate as granted to the compensation committee under our executive compensation and other plans.
 - Directing any officer or employee or request any employee of our advisors, consultants or counsel or such other individual as it may deem appropriate to attend a compensation committee meeting or meet with any compensation committee members.
 - Reviewing the compensation committee's charter on an annual basis and recommend changes, as appropriate, to our board of directors.
 - Evaluating the performance of the compensation committee on an annual basis. In conducting such self-evaluation, the compensation committee shall evaluate whether its charter appropriately addresses the matters that are or should be within its scope and shall recommend such changes as it deems necessary or appropriate to the board for consideration. The compensation committee shall address all matters that it considers relevant to its performance, including at least, the adequacy, appropriateness and quality of the information and recommendations presented by it to the board of directors, the manner in which they were discussed or debated, and whether the number and length of meetings of the compensation committee were adequate for it to complete its work in a thorough and thoughtful manner.

Our board of directors has established a stock option committee, comprised of a single member, Mr. Mo, to administer the 2010 Stock Incentive Plan with respect to option grants to our non-officer/director employees as well as consultants. Our compensation committee is responsible for administering the 2010 Stock Incentive Plan and the 2015 Stock Incentive Plan with respect to option grants to our executive officers and directors.

No director or officer may be directly involved in decisions regarding his or her own compensation.

Pursuant to the subscription agreement by and among our company, Safari Group Holdings Limited, Safari Group CB Holdings Limited, and Safari Parent Limited, dated September 17, 2015, Safari Parent Limited, an affiliate of the Carlyle Group, is entitled to nominate one director to our board of directors so long as the Carlyle Group beneficially owns at least 1.0% of our total outstanding share capital calculated on a fully diluted basis.

Terms of Directors and Executive Officers

Each of our directors holds office until a successor has been duly elected and qualified unless the director was appointed by our board of directors, in which case such director holds office until the following annual meeting of shareholders, at which time such director is eligible for reelection. Officers are elected by and serve at the discretion of our board of directors.

D. Employees

We had 40,351, 18,106 and 5,795 employees as of December 31, 2015, 2016 and 2017, respectively. The following table sets forth the number of our employees categorized by function as of December 31, 2017:

Editorial and production	1,100
Sales and marketing	3,279
Management and general administrative	715
Technical and research	701
Total	5,795

We began to downsize our workforce in the fourth quarter of 2016 to transform our online real estate brokerage business to a model of a mix of franchisees and self-owned agencies.

Our employees receive a base salary and are eligible for performance-based bonuses. We have granted share options to certain of our employees. For more information, see “Item 6.B. Directors, Senior Management and Employees—Compensation—Share Options.”

As required by PRC regulations, we participate in various employee benefit plans that are organized by municipal and provincial governments, including housing, pension, medical and unemployment benefit plans. We make monthly payments to these plans for each of our employees based on the employee’s compensation.

We believe we maintain a good working relationship with our employees and we have not experienced any significant labor disputes. We believe this is primarily attributable to our well-established reputation and brand name within the PRC real estate industry, our strong corporate culture, as well as the positive career development opportunities we provide to our employees. Our employees have not entered into any collective bargaining agreements, and no labor union has been established by our employees.

E. Share Ownership

As of March 31, 2018, we had 88,797,687 ordinary shares, consisting of 64,461,037 Class A ordinary shares and 24,336,650 Class B ordinary shares issued and outstanding. The following table sets forth information with respect to the beneficial ownership, within the meaning of Rule 13d-3 of the Exchange Act. Except as specifically noted, the beneficial ownership was as of March 31, 2018:

	Ordinary shares beneficially owned ⁽¹⁾			
	Class A No.	Percent	Class B No.	Percent
Principal Shareholders:				
Media Partner Technology Limited ⁽²⁾			11,355,645	46.7%
Next Decade Investments Limited ⁽³⁾	1,123,955	1.7%	10,230,645	42.0%
Digital Link Investments Limited ⁽⁴⁾	*	*	2,750,360	11.3%
IDG Alternative Global Limited ⁽⁵⁾	10,941,378	17.0%	—	—
Fosun International Limited ⁽⁶⁾	4,572,913	7.1%	—	—
Greenwoods Asset Management Limited ⁽⁷⁾	3,096,440	4.8%	—	—
General Atlantic Singapore Fund Pte. Ltd. ⁽⁸⁾	6,860,040	10.6%	—	—
The Goldman Sachs Group, Inc. ⁽⁹⁾	3,338,900	5.2%	—	—
Safari Group Holdings Limited ⁽¹⁰⁾	3,418,803	5.3%	—	—
Davis Selected Advisers, L.P. ⁽¹¹⁾	5,533,494	8.6%	—	—
Morgan Stanley ⁽¹²⁾	4,338,328	6.7%	—	—
Directors and Executive Officers ⁽¹³⁾ :				
Mr. Mo ⁽¹⁴⁾	9,445,291	14.7%	23,340,790	95.9%
Quan Zhou ⁽¹⁵⁾	13,782,418	21.4%	*	*
Qian Zhao	*	*	—	—
Sam Hanhui Sun	*	*	—	—
Sol Trujillo	*	*	—	—
Jian Liu	*	*	—	—
Zhihong Zhang	*	*	—	—
Hua Lei	*	*	—	—
All directors and executive officers as a group	23,227,709	36.0%	24,336,650	100.0%

* Less than 1.0% of total outstanding shares.

- (1) Beneficial ownership is determined in accordance with the rules and regulations of the SEC and includes voting or investment power with respect to our ordinary shares. In computing the number of shares beneficially owned by a person and the percentage ownership of that person, we have included shares that the person has the right to acquire within 60 days, including through the exercise of any option, warrant or other right or the conversion of any other security. These shares, however, are not included in the computation of the percentage ownership of any other person.
- (2) Includes 1,035,000 Class A ordinary shares represented by 5,175,000 ADSs and options to purchase 1,035,000 Class A ordinary shares within 60 days of March 31, 2018. All of the shares of Media Partner, a British Virgin Islands company, are held in irrevocable discretionary family trusts established by Mr. Mo, our founder and executive chairman. The address of Media Partner is P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands.
- (3) Includes 14,177 Class A ordinary shares represented by 70,885 ADSs and options to purchase 2,789,500 Class A ordinary shares and 1,754,500 Class B ordinary shares within 60 days of March 31, 2018. All of the shares of Next Decade, a British Virgin Islands company, are held in irrevocable discretionary family trusts established by Mr. Mo. The address of Next Decade is P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands.
- (4) The address of Digital Link Investments Limited, a British Virgin Islands company, is Apt 3B, Taggart Tower, 109 Repulse Bay Road, Hong Kong. Shan Li (our director until May 2017 when he resigned) is the sole shareholder of Digital Link Investments Limited.
- (5) Represents 5,359,658 ordinary shares and 5,581,720 ordinary shares issuable pursuant to convertible notes beneficially owned by IDG Alternative as reported in a Schedule 13D filed by it and its affiliates on November 17, 2015. IDG Alternative is owned as to 72.53% by IDG Maximum Financial Limited, a British Virgin Islands company, and as to 27.47% by Deanhale Limited, a British Virgin Islands company. IDG Maximum Financial Limited is affiliated with IDG-Accel China Capital GP Associates Ltd. and IDG China Capital Fund GP III Associates Ltd. Mr. Mo is the sole shareholder of Deanhale Limited. The address of IDG Alternative is P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands.
- (6) Represents ordinary shares (as represented by 22,864,565 ADSs) beneficially owned by Fosun International Limited as reported in a Schedule 13G filed by it and its affiliate on February 12, 2018. Fosun International Limited is a Hong Kong company with its address of principal of business at Room 808, ICBC Tower, 3 Garden Road, Central, Hong Kong.
- (7) Represents ordinary shares (as represented by 15,482,200 ADSs) beneficially owned by Greenwoods Asset Management Limited as reported in a Schedule 13G/A filed by it and its affiliates on June 26, 2017. Greenwoods Asset Management Limited, a Cayman Islands company with its address of principal office at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1111-1, Cayman Islands, filed such Schedule 13G/A together with, among other affiliates, Jinzhi Jiang, a PRC citizen whose address is 27/F, 1155 Fangdian Road, Kerry Parkside Office, Shanghai, PRC 201204.
- (8) Represents ordinary shares (as represented by 34,300,200 ADSs) beneficially owned by General Atlantic Singapore Fund Pte. Ltd. as reported in a Schedule 13D/A filed by it and its affiliates on November 14, 2016. General Atlantic Singapore Fund Pte. Ltd. is a Singapore company and its principal address is Asia Square Tower 1, 8 Marina View, #41-04, Singapore 018960.
- (9) Represents ordinary shares (as represented by 16,694,500 ADSs) beneficially owned by the clients of the Goldman Sachs Group, Inc. as reported in a Schedule 13G filed by it and its affiliates on February 12, 2018. Goldman Sachs Group, Inc. is a Delaware company and its principal business address is 200 West Street New York, NY 10282.
- (10) Represents 3,418,803 ordinary shares beneficially owned by Safari Group Holdings Limited. Safari Group Holdings Limited is owned as to 72.0% by Safari Parent Limited, a Cayman Islands company, and as to 28.0% by Ateefa Limited, a British Virgin Islands company. Safari Parent Limited is affiliated with the Carlyle Group. Mr. Mo is the sole shareholder of Ateefa Limited. The address of Safari Group Holdings Limited is the offices of Intertrust Corporate Services (Cayman) Limited, 190 Elgin Avenue, George Town, Grand Cayman KY1-9005, Cayman Islands.
- (11) Represents ordinary shares (as represented by 27,667,470 ADSs) beneficially owned by Davis Selected Advisers, L.P. as reported in a Schedule 13G/A filed by it on February 13, 2018. The address of the business office of Davis Selected Advisers, L.P. is 2949 East Elvira Road, Suite 101, Tucson, Arizona 85756.
- (12) Represents ordinary shares (as represented by 21,691,640 ADSs) beneficially owned by the clients of Morgan Stanley as reported in a Schedule 13G/A filed by it and its affiliate on February 12, 2018. Morgan Stanley is a Delaware company and its principal business address is 1585 Broadway, New York, NY 10036.
- (13) The address of our current directors and executive officers is c/o Block A, No. 20 Guogongzhuang Middle Street, Fengtai District, Beijing 100070, the People's Republic of China.
- (14) Represents ordinary shares beneficially owned by Media Partner, Next Decade, Ateefa Limited, Deanhale Limited and Karistone Limited, a British Virgin Islands company. All of the shares of Media Partner and Next Decade, including 3,824,500 ordinary shares represented by 19,122,500 ADSs and options to purchase 5,891,200 Class A ordinary shares and 1,754,500 Class B ordinary shares within 60 days of March 31, 2018, are held in two irrevocable discretionary family trusts established by Mr. Mo for the benefit of his designated family members. Mr. Mo acts as a protector of these family trusts, and Deutsche Bank International Trust Co. (Cayman) Limited and Credit Suisse Trust Limited act as the trustee of these trusts, respectively. In addition, Mr. Mo, through Ateefa Limited, is deemed to have beneficial ownership of an aggregate of 1,738,706 Class A ordinary shares owned by Safari Group Holdings Limited and Safari Group CB Holdings Limited, and, through Deanhale Limited, is deemed to have beneficial ownership of 3,005,596 Class A ordinary shares owned by IDG Alternative. Furthermore, Mr. Mo, through Karistone Limited, beneficially owns 926,461 Class A ordinary shares.
- (15) Includes options to purchase 149,400 Class A ordinary shares within 60 days of March 31, 2018, 2,116,061 Class A ordinary shares held by IDG-Accel China Capital L.P., 97,699 Class A ordinary shares held by IDG-Accel China Capital Investors L.P., 10,941,378 Class A ordinary shares held by IDG Alternative Global Limited and 477,880 Class A ordinary shares held by Chuang Xi Capital Holdings Limited, all of which have the same ultimate general partner, IDG-Accel China Capital GP Associates Ltd., of which Quan Zhou is a director. Each of IDG-Accel China Capital L.P. and IDG-Accel China Capital Investors L.P. is a Cayman Islands exempted limited partnership with its registered office located at Walkers SPV Limited, Walker House, 87 Mary Street, George Town, Grand Cayman, KY1-9002 Cayman Islands. Each of IDG Alternative Global Limited and Chuang Xi Capital Holdings Limited is a British Virgin Islands company with its registered office located at P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands.

JPMorgan Chase Bank, N.A., the depository of our ADSs, has advised us that as of March 31, 2018, of the 88,797,687 issued and outstanding ordinary shares, including both Class A ordinary shares and Class B ordinary shares, approximately 58.8% of our outstanding Class A ordinary shares, were in the form of ADSs. None of our outstanding Class B ordinary shares was held by any record holder with an address in the United States.

Our ordinary shares are divided into Class A ordinary shares and Class B ordinary shares. Holders of Class A ordinary shares are entitled to one vote per share, while holders of Class B ordinary shares are entitled to 10 votes per share. We intend to maintain the dual-class ordinary share structure. Each Class B ordinary share is convertible into one Class A ordinary share at any time by its holder and Class A ordinary shares are not convertible into Class B ordinary shares under any circumstances. Upon transfer of any Class B ordinary share by its holder to any person or entity that is not a majority-owned and majority-controlled subsidiary of certain of our shareholders as set forth in our amended and restated articles of association, such Class B ordinary share will be automatically and immediately converted into a Class A ordinary share.

On March 18, 2014, we announced the change of the ratio of our American Depositary Receipts representing Class A ordinary shares from one ADS for one Class A ordinary shares to five ADSs for one Class A ordinary share. The record date for the ratio change was March 28, 2014. For our ADS holders, this ratio change had the same effect as a five-for-one ADS split. There was no change to our Class A ordinary shares or Class B ordinary shares. The effect of the ratio change on the ADS trading price on New York Stock Exchange occurred on April 7, 2014.

Subject to any contractual restrictions and applicable law, we and our subsidiaries, affiliates or significant shareholders may from time to time, in their sole discretion, purchase, repay, redeem or retire any of our outstanding debt or equity securities (including any publicly issued debt or equity securities), in privately negotiated or open market transactions, by tender offer or otherwise.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. Major Shareholders

See “Item 6.E. Directors, Senior Management and Employees—Share Ownership.”

B. Related Party Transactions

Structure Contracts

PRC laws and regulations restrict and impose conditions on foreign investment in certain industries in China. We used to operate under a tighter regulatory regime which was restrictive of foreign investment in Internet content distribution and advertising businesses and adopted a series of Structure Contracts with our consolidated controlled entities (excluding their subsidiaries) and their nominee shareholders to operate our businesses. Under the current regulatory regime, Internet content distribution is permitted to operators with less than 50.0% foreign investment and advertising is permitted to all qualified operators. We may consider further optimizing our corporate structure in light of the evolving regulatory environment.

In anticipation of our originally proposed acquisition of a controlling stake in Wanli and the sale of a portion of our equity interest in our subsidiaries to Wanli (which was terminated in February 2017), in December 2015, we underwent an internal restructuring, whereby we terminated all of our previous structure contracts and caused Beijing Zhong Zhi Shi Zheng and Jia Tian Xia Network, our wholly-owned PRC subsidiaries, to enter into the current Structure Contracts with our consolidated controlled entities, with terms and conditions substantially similar to those of our previous structure contracts. Under the current Structure Contracts, the equity interests of our consolidated controlled entities are held by our nominee shareholders, i.e., Vincent Tianquan Mo, executive chairman of our board of directors and chief executive officer, Richard Jiangong Dai, our director (until February 2016 when Mr. Dai resigned) and former chief executive officer, and certain wholly-owned subsidiaries of theirs, and we exercise effective over our consolidated controlled entities through Beijing Zhong Zhi Shi Zheng and Jia Tian Xia Network. For a detailed description of the regulatory environment that necessitates the adoption of our corporate structure, see “Item 4.B. Information on the Company—Business Overview—Regulation.” For a detailed description of the risks associated with our corporate structure, see “Item 3.D. Key Information—Risk Factors—Risks related to our corporate structure.”

The Structure Contracts enable us to:

- receive substantially all of the economic benefits from our consolidated controlled entities in consideration of the services provided by our subsidiaries;
- exercise effective control over our consolidated controlled entities; and
- hold an exclusive option to purchase all or part of the equity interests in our consolidated controlled entities when and to the extent permitted by PRC laws.

We did not separately enter into any Structure Contracts with the subsidiaries of the consolidated controlled entities with which we entered into the Structure Contracts. The following is a summary of the material terms under our Structure Contracts among our wholly-owned PRC subsidiaries, our consolidated controlled entities and the nominee shareholders of these consolidated controlled entities.

Exclusive Technical Consultancy and Services Agreements

Under the exclusive technical consultancy and service agreements, our wholly-owned PRC subsidiary has the exclusive right to provide our consolidated controlled entities with relevant technical services relating to their business, such as information technology system operations and maintenance services, or technology supporting services for their advertising products. In exchange for these services, each of the consolidated controlled entities has agreed to make monthly payments to the service provider for such services. The original term of each agreement is 10 years, and our wholly-owned PRC subsidiary can unilaterally extend the term of the exclusive technical consultancy and services agreements and such request will be unconditionally agreed to by the consolidated controlled entities.

Equity Pledge Agreements

In order to secure the payment obligations of the consolidated controlled entities under the exclusive technical consultancy and services agreements, except as disclosed below, the nominee shareholders have pledged to our wholly-owned PRC subsidiary their entire equity interests in the consolidated controlled entities. Under these agreements, the nominee shareholders may not transfer the pledged equity interest without the prior written consent of our wholly-owned PRC subsidiary. Our wholly-owned PRC subsidiary also has the right to collect dividends of the consolidated controlled entities from their nominee shareholders. These agreements will remain valid for 10 years and can be extended at the sole discretion of our wholly-owned PRC subsidiary.

Operating Agreements

Under the operating agreements, our wholly-owned PRC subsidiary has undertaken to enter into guarantee contracts with third parties, as required by third parties, to guarantee the performance of the consolidated controlled entities under their business contracts with third parties. In return, the consolidated controlled entities are required to pledge their accounts receivable and mortgage all of their assets as counter-security to our wholly-owned PRC subsidiary. Each of the consolidated controlled entities and the nominee shareholders has agreed not to enter into any transaction that would substantially affect the assets, rights, obligations or operations of the consolidated controlled entities without the prior written consent of our wholly-owned PRC subsidiary. The original term of each agreement is 10 years. These agreements can be extended prior to expiration with written confirmation from our wholly-owned PRC subsidiary, or can be terminated by our wholly-owned PRC subsidiary, upon 30 days' advance notice.

Shareholders' Proxy Agreements

Under the shareholders' proxy agreements, the nominee shareholders agreed to irrevocably entrust our wholly-owned PRC subsidiary to exercise their rights as the registered shareholders of the consolidated controlled entities to attend shareholders' meetings and cast votes. Our wholly-owned PRC subsidiary may assign part or all of these proxy rights to its designated employees, and will be indemnified for any loss under these agreements. These agreements will also be binding upon successors of the parties or transferees of the parties' equity interests. These agreements will remain in effect until terminated upon written consent by all the parties to the agreements or by their successors.

Loan Agreements

Under the loan agreements and the related transfer agreements, the nominee shareholders received loans from us to make contributions to the registered capital of the consolidated controlled entities between 2004 and 2015, and agreed to repay the loans, upon request, by transferring their entire equity interests in the consolidated controlled entities to our wholly-owned PRC subsidiary or its respective designees, when permitted by applicable PRC laws, rules and regulations.

Exclusive Call Option Agreements

Under the exclusive call option agreements, our wholly-owned PRC subsidiary or any third party designated by it has the right to acquire from the nominee shareholders of the consolidated controlled entities their entire equity interests in such consolidated controlled entities when permitted by applicable PRC laws, rules and regulations. The proceeds from the exercise of the call option will be applied to repay the loans under the loan agreements described above. These agreements each has an original term of 10 years and may be extended for another 10 years at our sole discretion.

Telstra Private Placement

In connection with the private placement by Telstra International in September 2010, on August 13, 2010, we entered into an investor's rights agreement with General Atlantic, Apax, Next Decade, Media Partner and Digital Link and a registration rights agreement with General Atlantic and Apax. We terminated these agreements on September 23, 2015.

2015 Registration Rights Agreements

On September 24, 2015, we entered into a registration rights agreement with Safari and Safari CB, under which each of Safari and Safari CB has demand registration rights pursuant to which we will be required to effect the registration of all or a portion of its Class A ordinary shares (issuable pursuant to the 2022 Notes in the case of Safari CB), subject to terms and conditions substantially similar to those of the 2014 Registration Rights Agreement. See “—2014 Registration Rights Agreement” above.

On November 4, 2015, we entered into a registration rights agreement with IDG Alternative and China Merchants Bank Co., Ltd. Tianjin Pilot Free Trade Zone Branch (“CMB”), under which we are required to file a registration statement on Form F-3 within 45 days after the closing of the private placement transactions in November 2015, in order to effect the registration of all or a portion of the Class A ordinary shares held by IDG Alternative or CMB in the case it enforces its security interest on the Class A ordinary shares held by IDG Alternative. In addition, promptly after the offering and sale of any of their Class A ordinary shares, we will be required to file a prospectus to be used for such offering and sale in accordance with the Securities Act.

On November 9, 2015, we and Karistone Limited entered into a registration rights agreement with each of IDG-Accel, IDG-Accel Investors, Winning Star Global Limited, Rainbow Zone Enterprise Inc, Chuang Xi Capital Holdings Limited and Wealth Harvest Global Limited, respectively, under which we are required to file a registration statement on Form F-3 within 45 days after the closing of the private placement transactions in November 2015, in order to effect the registration of all or a portion of Class A ordinary shares held by each of Karistone Limited, IDG-Accel, IDG-Accel Investors, Winning Star Global Limited, Rainbow Zone Enterprise Inc, Chuang Xi Capital Holdings Limited and Wealth Harvest Global Limited (collectively, the “Right Holders”). In addition, promptly after the offering and sale of any of their Class A ordinary shares, we will be required to file a prospectus to be used for such offering and sale in accordance with the Securities Act. Each of the Right Holders also has the right to request that its Class A ordinary shares be included in any registration of our Class A ordinary shares, other than registrations on Form F-4 or S-8 or in compensation or acquisition-related registrations. In addition, the underwriters may, for marketing reasons, cut back all or a part of the shares that any of the Right Holders has requested to be registered in any incidental registration and we will have the right to terminate any registration we initiated prior to its effectiveness regardless of any request for inclusion by any of the Right Holders.

Other Related Party Transactions

We had relationships with the following related parties in 2017:

Name of Related Party	Relationship with Fang
Vincent Tianquan Mo	Executive chairman of the board of directors and chief executive officer
Richard Jiangong Dai	Former director and former chief executive officer of our company
Beihai Silver Beach 1 Hotel and Property Management Company, Ltd. (“Beihai Silver Beach”)	A company under the control of Vincent Tianquan Mo
Che Tian Xia Company Ltd. (“Che Tian Xia”)	A company under the control of Vincent Tianquan Mo and Richard Jiangong Dai
Research Center on Natural Conservation (“Research Center”)	A company under the control of Vincent Tianquan Mo
Crowne Plaza San Francisco-Int’l Airport (“Crowne Plaza”)	A company under the control of Vincent Tianquan Mo
Upsky San Francisco Airport Hotel LLC (“Upsky San Francisco”)	A company under the control of Vincent Tianquan Mo
Upsky Lighthouse Hotel LLC (“Upsky Lighthouse”)	A company under the control of Vincent Tianquan Mo
Upsky Long Island Hotel LLC (“Upsky Long Island”)	A company under the control of Vincent Tianquan Mo
Nanning Xuyin Business Co., Ltd. (“Nanning Xuyin”)	A company under the control of Vincent Tianquan Mo
New York Military Academy (“Military Academy”)	A company of which Vincent Tianquan Mo is a director
Wall Street Global Training Center, Inc. (“Training Center”)	A company under the control of Vincent Tianquan Mo and two other independent directors

We had the following expenses from related party transactions during 2017:

	<u>2017</u> <u>(US\$ in</u> <u>thousands)</u>
Office building leased from:	
- Vincent Tianquan Mo	159
Management fee incurred:	
- Beihai Silver Beach	501
Hotel service fee incurred:	
- Upsky San Francisco	
- Upsky Long Island	
- Beihai Silver Beach	
Training fee incurred:	
- Military Academy	

In 2011, we entered into an agreement with Training Center to lease to it office space of approximately 220 square feet in a building owned by us located in New York City, free of charge.

In February 2012, we entered into an agreement with Mr. Mo, our executive chairman, to lease a building owned by him for a 10-year period from March 1, 2012. The deemed rental expense of US\$ 0.2 million and the corresponding shareholder contribution were included in our consolidated financial statements for 2017.

In April 2013, we and Beihai Silver Beach entered into an agreement, pursuant to which Beihai Silver Beach was engaged to manage the hotel and office leasing operations owned by the BaoAn Entities for 10 years. The management fees incurred for 2017 were US\$ 0.5 million.

In April 2013, we entered into an agreement with Che Tian Xia to use its domain name for five years free of charge.

In 2015, Upsky San Francisco, Upsky Lighthouse and Upsky Long Island provided hotel accommodations to our employees that amounted to US\$20,000, US\$1,000 and US\$0.1 million, respectively.

In 2016, Upsky San Francisco, Upsky Long Island and Beihai Silver Beach provided hotel accommodations to our employees that amounted to US\$17,000, US\$81,000 and US\$113,000.

In 2016, Military Academy provided training services to us for training fees amounting to US\$111,000.

Nanning Xuyin held 73,430,061 shares in Guilin Bank Co., Ltd. on behalf of our company, through an entrustment agreement, in 2015, and transferred 30,595,859 shares of Guilin Bank to the Company in 2016.

On September 25, 2017, additional 42,834,202 shares of Guilin Bank was transferred by the third-party in full satisfaction of its remaining overdue receivables of US\$24,695 to the Company. The total investment constituted a 1.98% ownership in Guilin Bank. In October 2017, the Company received 7,343,006 shares of Guilin Bank as a stock dividend and the Company's shareholding increased from 73,430,061 to 80,773,067. No impairment on the investment in Guilin Bank was recognized for the year ended December 31, 2017.

For more details of our related party transactions in 2017, see Note 18 to our consolidated financial statements included elsewhere in this annual report.

Stock Incentive Plans

See "Item 6.B. Directors, Senior Management and Employees—Compensation—Share Options."

C. Interests of Experts and Counsels

Not applicable.

ITEM 8. FINANCIAL INFORMATION

A. Consolidated Statements and Other Financial Information

We have appended consolidated financial statements filed as part of this annual report.

Legal Proceedings

See “Item 4.B. Information on the Company—Business Overview—Legal Proceedings.”

Dividend Policy

Our board of directors has the discretion over whether to pay dividends on our ordinary shares. If our board of directors decides to pay dividends on our ordinary shares, the form, frequency and amount will be based upon our future operations and earnings, capital requirements and surplus, general financial condition, shareholders’ interests, contractual restrictions and such other factors as our board of directors may deem relevant. For a description of our corporate structure and its potential impact upon our ability to pay dividends, see “Item 3.D. Key Information—Risk Factors—Risks related to doing business in China—We rely primarily on dividends and other distributions on equity paid by our subsidiaries, and any limitation on the ability of our subsidiaries to make payments to us could have a material adverse effect on our ability to conduct our business as well as our liquidity.”

Holders of ADSs are entitled to receiving dividends, subject to the terms of the deposit agreement, to the same extent as the holders of our ordinary shares. Cash dividends, if any, will be paid to the depository in U.S. dollars and paid to holders of ADSs according to the terms of the deposit agreement. Other distributions, if any, will be paid by the depository to holders of ADSs in any means it deems legal, fair and practical. Under the deposit agreement, the depository is required to distribute dividends to holders of ADSs unless such distribution is prohibited by law. The amounts distributed to holders will be net of fees, expenses, taxes and other governmental charges payable by holders under the deposit agreement.

In August 2014, we declared a cash dividend of US\$1.00 per share on our ordinary shares (US\$0.20 per ADS), or an aggregate of US\$82.4 million to holders of our ordinary shares and ADSs, payable to shareholders of record on August 18, 2014. As of December 31, 2014, all the declared dividends had been paid.

In March 2015, we declared a cash dividend of US\$1.00 per share on our ordinary shares (US\$0.20 per ADS), or an aggregate of US\$82.8 million to holders of our ordinary shares and ADSs, payable to shareholders of record on March 13, 2015. As of the date of this annual report, all the declared dividends had been paid.

B. Significant Changes

Except as disclosed elsewhere in this annual report, we have not experienced any significant changes since the date of our audited consolidated financial statements included in this annual report.

ITEM 9. THE OFFER AND LISTING

A. Offer and Listing Details

Our ADSs have been listed for trading on the New York Stock Exchange under the symbol “SFUN” since September 17, 2010. The following table sets forth the high and low trading prices of our ADSs on the New York Stock Exchange for the periods indicated:

	Price Per ADS ⁽¹⁾	
	High	Low
	(US\$)	
Annual Highs and Lows		
2013	16.89	4.12
2014	19.94	6.78
2015	10.01	4.65
2016	7.10	2.76
2017		
Quarterly Highs and Lows		
First Quarter 2016	7.10	4.37
Second Quarter 2016	6.53	4.64
Third Quarter 2016	5.64	4.27
Fourth Quarter 2016	4.50	2.76
First Quarter 2017	3.95	2.46
Second Quarter 2017	3.96	3.12
Third Quarter 2017	4.70	3.01
Fourth Quarter 2017	5.58	3.97
First Quarter 2018	5.40	4.49
Monthly Highs and Lows		
November 2017	5.27	4.455
December 2017	5.58	4.14
January 2018	5.48	4.56
February 2018	5.31	4.63
March 2018	5.14	4.49
April 2018	5.25	4.50
May 2018 (through May 14, 2018)	5.28	4.95

(1) Trading prices for all periods represented through May 14, 2018 have been retroactively adjusted to reflect the change of our ADS to Class A ordinary share ratio from one ADS for one Class A ordinary shares to five ADSs for one Class A ordinary share effective April 7, 2014.

B. Plan of Distribution

Not applicable.

C. Markets

Our ADSs have been listed for trading on the New York Stock Exchange under the symbol “SFUN” since September 17, 2010.

D. Selling Shareholders

Not applicable.

E. Dilution

Not applicable.

F. Expenses of the Issue

Not applicable.

ITEM 10. ADDITIONAL INFORMATION

A. Share Capital

Not applicable.

B. Memorandum and Articles of Association

We incorporated by reference into this annual report the description of our fifth amended and restated memorandum and articles of association contained in our current report on Form 6-K originally filed with the SEC on August 3, 2012. Our shareholders adopted our fifth amended and restated memorandum and articles of association by a special resolution on August 1, 2012.

C. Material Contracts

Material contracts other than in the ordinary course of business are described in “Item 4. Information on the Company” and in “Item 7. Major Shareholders and Related Party Transactions” and elsewhere in this annual report.

D. Exchange Controls

Regulations relating to Foreign Exchange, Taxation and Dividend Distribution

Foreign Exchange

The principal regulation governing foreign exchange in China is the Foreign Currency Administration Regulations issued by the State Council in January, 1996 and as amended in August, 2008 and the Regulations of Settlement, Sale and Payment of Foreign Exchange, which were promulgated by the PBOC in June 1996, and became effective on July 1, 1996. The Renminbi is freely convertible for current account transactions, such as trade and service-related foreign exchange transactions, but not for capital account transactions, such as direct investments, loans or investments in securities outside China, without the prior approval of the relevant government authorities. Pursuant to the Foreign Currency Administration Regulations, foreign-invested enterprises in China may purchase foreign exchange at authorized commercial banks without the approval of SAFE for trade and service-related foreign exchange transactions by providing commercial documents evidencing these transactions. They may also retain foreign exchange, subject to a cap approved by SAFE, to satisfy foreign exchange liabilities or to pay dividends. However, the relevant PRC government authorities may limit or eliminate the ability of foreign-invested enterprises to purchase and retain foreign currencies in the future. In addition, foreign exchange transactions for capital accounts are still subject to limitations and require approval from or registration with relevant government authorities.

Taxation and Dividend Distribution

We are incorporated in the Cayman Islands. Under the current laws of the Cayman Islands, we are not subject to income or capital gains tax. In addition, dividend payments are not subject to withholding tax in the Cayman Islands.

In March 2007, the National People's Congress of China enacted the New EIT Law, which took effect on January 1, 2008, as amended in February, 2017. Under the New EIT Law, since January 1, 2008, foreign-invested enterprises, such as our subsidiaries and consolidated controlled entities, are subject to enterprise income tax at a uniform rate of 25.0% if no tax preferential policy is applicable. In addition, under the New EIT Law, enterprises organized under the laws of jurisdictions outside China may be classified as either "non-resident enterprises" or "resident enterprises." Non-resident enterprises without an establishment or place of business in China are subject to withholding tax at the rate of 10.0% with respect to their PRC-sourced dividend income, which rate can be reduced under applicable double tax treaties or arrangements. As we are incorporated in the Caymans Islands, we may be regarded as a "non-resident enterprise." We hold equity interests in several of our major PRC subsidiaries indirectly through subsidiaries incorporated in Hong Kong. According to the Avoidance of Double Taxation Arrangement between Mainland China and Hong Kong, dividends declared by a resident enterprise in mainland China to a Hong Kong resident enterprise should be subject to withholding tax at a rate of 5.0%, provided, however, that such Hong Kong resident enterprise directly owns at least 25.0% of the equity interest in the PRC resident enterprise. In September 2013, SouFun Media and SouFun Network were granted a reduced withholding tax rate of 5% on earnings to be distributed to their Hong Kong parent entities between 2013 and 2015.

In August 2009, SAT issued Circular 124. Pursuant to Circular 124, non-tax residents of China who wish to enjoy a treaty benefit on their China-sourced income under a Sino-foreign double tax agreement have to go through either an "approval application" procedure (for passive income—dividends, interest, royalties and capital gains) or "record filing" procedure (for active income—business profits of a permanent establishment, service fees and personal employment income) in which specific forms attached to Circular 124 have to be submitted to the relevant Chinese tax authorities together with the relevant supporting documentation. On November 1, 2015, Circular 124 was repealed by the Administrative Measures for Tax Convention Treatment for Non-resident Taxpayers issued by SAT ("Circular 60"). Circular 60 abolishes the "approval application" procedure and provides that any non-resident taxpayer filing a tax return shall determine whether such taxpayer is entitled to the treaty benefit, and shall submit the relevant statements and materials to the competent tax authority for the tax return filing. In the case of withholding at source and designated withholding, where a non-resident taxpayer who considers it meets the conditions for enjoying the convention treatment needs to be entitled to the convention treatment, the taxpayer shall take the initiative to propose the same to the withholding agent, and provide the withholding agent with the relevant statements and materials for the withholding declaration. The withholding agent shall withhold tax in accordance with the conventions, and forward the relevant statements and materials to the competent tax authority when making the withholding declaration.

In addition, SAT released Circular 9 in February 2018. Circular 9 provides guidance for the determination of "beneficial ownership" for the purpose of claiming benefits under double taxation arrangements by treaty residents in respect of articles of dividends, royalties and interest under double taxation arrangements. Under Circular 9, a "beneficial owner" shall generally engage in "substantive business activities" which is further referred to as manufacturing, trading and management activities under Article 2 of Circular 9. Circular 9 also sets forth several factors, the existence of which generally does not provide support that the treaty resident is a "beneficial owner." According to Circular 9, non-resident enterprises which could not provide valid supporting documents as "beneficiary owners" could not be approved to enjoy treaty benefits. Therefore, dividends from our PRC subsidiaries paid to us through our Hong Kong subsidiaries may be subject to a withholding tax rate of 10.0% if our Hong Kong subsidiaries cannot be considered as a "beneficial owner" under Circular 9.

Despite the above, the New EIT Law also provides that an enterprise incorporated outside China with its “de facto management bodies” located within mainland China should be considered a PRC resident enterprise and therefore be subject to enterprise income tax on its worldwide income at the rate of 25.0%.

The implementing rules for the New EIT Law defines “de facto management organization” as the body that exercises substantial and comprehensive control over the production, operation, personnel, accounting, property and other factors of an enterprise. SAT issued Circular 82 in April 2009. Circular 82 provides certain specific criteria for determining whether the “de facto management bodies” of a Chinese-controlled offshore-incorporated enterprise is located in China. Although Circular 82 only applies to offshore enterprises controlled by PRC enterprises, not those controlled by PRC individuals or foreigners in China, like us, the determining criteria set forth in Circular 82 may reflect SAT’s general position on how the “de facto management bodies” test should be applied in determining the tax resident status of offshore enterprises, regardless of whether they are controlled by PRC enterprises, individuals or foreigners.

Substantially all members of our management are currently located in China and we expect them to continue to be located in China for the foreseeable future. Therefore, if we are deemed to be a PRC tax resident enterprise, we will be subject to an enterprise income tax rate of 25.0% on our worldwide income if no preferential tax treatment is applicable. According to the New EIT Law and its implementing rules, dividends are exempted from income tax if such dividends are received by a resident enterprise on an equity interest it directly owns in another resident enterprise. Therefore, it is possible that dividends we derive through our Hong Kong subsidiaries from our PRC subsidiaries would be tax exempt income under the New EIT Law if our Hong Kong subsidiaries are also deemed to be “resident enterprises.”

If we are deemed to be a PRC tax resident enterprise, we would then be obliged to withhold PRC withholding income tax on the gross amount of dividends declared to shareholders who are non-PRC tax residents. The withholding income tax rate is 10.0% for non-resident enterprises and 20.0% for non-resident individuals, unless otherwise provided under the applicable double tax treaties between China and governments of other jurisdictions.

Although the New EIT Law has been effective for more than four years, significant uncertainties still exist with respect to the interpretation of the New EIT Law and its implementing rules. Any increase in the enterprise income tax rate applicable to us, the imposition of PRC income tax on our global income or the imposition of withholding tax on dividends declared by our subsidiaries to us could have a material adverse effect on our business, financial condition and results of operations.

Regulations relating to Foreign Exchange in Certain Onshore and Offshore Transactions

In October 2005, SAFE issued Circular 75, which required that PRC residents, whether natural or legal persons, register with the relevant local SAFE branches prior to their establishment, or prior to their taking control of, an offshore entity (an “Overseas SPV”) established for the purpose of overseas equity financing involving onshore assets or equity interests held by them, and make filings with SAFE afterwards upon the occurrence of certain material capital changes. On July 4, 2014, SAFE promulgated Circular 37 which replaced Circular 75. Pursuant to Circular 37, (1) a PRC resident must register with the local SAFE branch before such PRC resident contributes assets or equity interests in an Overseas SPV that is established or controlled by the PRC resident for the purpose of conducting investment or financing, and (2) following the initial registration, the PRC resident is required to register with the local SAFE branch for any major change in respect of the Overseas SPV, including, among other things, a change in the PRC resident shareholder of the Overseas SPV, the name of the Overseas SPV, its term of operation, or any increase or reduction in the registered capital of the Overseas SPV, any share transfer or swap, and any merger or division. Any failure to comply with these registration procedures may result in penalties, including the imposition of fines, criminal liability, and restrictions on the ability of the PRC subsidiary of the Overseas SPV to distribute dividends to its overseas shareholders.

It remains unclear how Circular 37 will be interpreted and implemented, and how or whether it applies to us. We cannot predict how it will affect our business operations or future strategies. If SAFE determines that Circular 37 applies to us, our present and prospective PRC subsidiaries’ ability to conduct foreign exchange activities, such as any remittance of dividends or foreign currency-denominated borrowings, may be subject to compliance with Circular 37 requirements by our PRC resident shareholders. We cannot assure you that our PRC resident shareholders will be able to complete the necessary registration and filing procedures required by Circular 37. If Circular 37 is determined to apply to us or any of our PRC resident shareholders, a failure by our PRC resident shareholders or beneficial owners to comply with Circular 37 may subject them to penalties under PRC foreign exchange regulations, and may subject us to fines or legal sanctions, restrict our overseas or cross-border investment activities, limit our subsidiaries’ ability to make distributions or pay dividends or affect our ownership structure, which could materially and adversely affect our business and prospects.

E. Taxation

Cayman Islands taxation

The Cayman Islands currently levies no taxes on individuals or corporations based upon profits, income, gains or appreciation and there is no taxation in the nature of inheritance tax or estate duty and there are no other taxes likely to be material to us levied by the Government of the Cayman Islands except for stamp duties which may be applicable on instruments executed in, or after execution brought within the jurisdiction of, the Cayman Islands. Although it is unlikely that we will be subject to material taxes, there is no assurance that the Cayman Islands government will not impose taxes in the future, which could be material to us. In addition, there may be tax consequences if we are, for example, involved in any transfer or conveyance of immovable property in the Cayman Islands. The Cayman Islands is not party to any double tax treaties that are applicable to any payments made to or by us and there are no exchange control regulations or currency restrictions in the Cayman Islands.

Under existing Cayman Islands laws, payments of interest and principal on the notes and dividends and capital in respect of our shares will not be subject to taxation in the Cayman Islands and no withholding will be required on the payment of interest and principal or a dividend or capital to any holder of the notes or our shares, as the case may be, nor will gains derived from the disposal of the notes or our shares be subject to Cayman Islands income or corporation tax.

No stamp duty is payable in respect of the issue or conversion of the notes. The notes themselves will be stamp able if they are executed in or brought into the Cayman Islands.

People's Republic of China taxation

The PRC enterprise income tax is calculated based on the taxable income determined under the PRC laws and accounting standards. Under the New EIT Law, all domestic and foreign-invested companies in China are subject to a uniform enterprise income tax at the rate of 25% and dividends from a PRC subsidiary to its foreign parent company are 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 tax, or the tax is otherwise exempted or reduced pursuant to the PRC tax laws. Our subsidiaries in China are considered foreign investment entities ("FIEs"), and certain of these subsidiaries are directly held by our subsidiaries in Hong Kong. According to the currently effective tax treaty between China and Hong Kong, dividends payable by an FIE in China to a company in Hong Kong which directly holds at least 25% of the equity interests in the FIE will be subject to a withholding tax of 5%. In February 2009, SAT issued Circular No. 81. According to Circular No. 81, in order to enjoy the preferential treatment on dividend withholding tax rates, an enterprise must be the "beneficial owner" of the relevant dividend income, and no enterprise is entitled to enjoy preferential treatment pursuant to any tax treaties if such enterprise qualifies for such preferential tax rates through any transaction or arrangement, the major purpose of which is to obtain such preferential tax treatment. The tax authority in charge has the right to make adjustments to the applicable tax rates, if it determines that any taxpayer has enjoyed preferential treatment under tax treaties as a result of such transaction or arrangement. In February 2018, SAT issued Circular No. 9 to provide guidance on the criteria to determine whether an enterprise qualifies as the "beneficial owner" of the PRC sourced income for the purpose of obtaining preferential treatment under tax treaties. Pursuant to Circular No. 9, the PRC tax authorities will review and grant tax preferential treatment on a case-by-case basis and adopt the "substance over form" principle in the review. Circular 9 specifies that a beneficial owner should generally carry out substantial business activities and own and have control over the income, the assets or other rights generating the income. Therefore, an agent or a conduit company will not be regarded as a beneficial owner of such income. Circular 9 provides that the tax authorities shall make the decision based on a comprehensive consideration of all determining factors provided in Circular 9 rather than the status of a single determining factor. Since the two circulars were issued, it has remained unclear how the PRC tax authorities will implement them in practice and to what extent they will affect the dividend withholding tax rates for dividends distributed by our subsidiaries in China to our Hong Kong subsidiary. If the relevant tax authority determines that any of our Hong Kong subsidiaries is a conduit company and does not qualify as the "beneficial owner" of the dividend income it receives from our PRC subsidiaries, the higher 10% withholding tax rate may apply to such dividends.

Under the New EIT Law, an enterprise established outside of China with its “de facto management body” within China is considered a resident enterprise and will be subject to enterprise income tax at the rate of 25% on its worldwide income. The “de facto management body” is defined as the organizational body that effectively exercises overall management and control over production and business operations, personnel, finance and accounting, and properties of the enterprise. It remains unclear how the PRC tax authorities will interpret such a broad definition. If the PRC tax authorities determine that we should be classified as a resident enterprise, our global income will be subject to income tax at a uniform rate of 25%, which may have a material adverse effect on our financial condition and results of operations. Notwithstanding the foregoing provision, the New EIT Law also provides that, if a resident enterprise directly invests in another resident enterprise, the dividends received by the investing resident enterprise from the invested enterprise are exempted from income tax, subject to certain conditions. However, it remains unclear how the PRC tax authorities will interpret the PRC tax resident treatment of an offshore company, like us, having indirect ownership interests in PRC enterprises through intermediary holding vehicles.

If we were treated as a PRC resident enterprise, any interest payable to non-resident enterprise holders of the notes and dividends payable to non-resident enterprise holders of our ordinary shares or ADSs may be treated as income derived from sources within PRC and therefore subject to a 10% withholding tax (or 20% in the case of non-resident individual holders) unless an applicable income tax treaty provides otherwise. In addition, capital gains realized by non-resident enterprise holders upon the disposition of the notes, our ordinary shares or ADSs may be treated as income derived from sources within China and therefore subject to 10% income tax (or 20% in the case of non-resident individual holders) unless an applicable income tax treaty provides otherwise.

U.S. federal income taxation

The following discussion describes the material U.S. federal income tax consequences of the ownership and disposition of our ADSs or ordinary shares under currently applicable law. This discussion does not address any U.S. federal consequences other than U.S. federal income tax consequences (such as the gift or estate tax). This discussion also does not address any state, local or non-U.S. tax consequences of an investment in our ordinary shares or ADSs. This discussion applies to you only if you are a U.S. holder (as defined below) and beneficially own our ordinary shares or ADSs as capital assets for U.S. federal income tax purposes. This discussion does not apply to you if you are a member of a class of holders subject to special rules, such as:

- dealers in securities or currencies;
- traders in securities that elect to use a mark-to-market method of accounting for securities holdings;
- banks or other financial institutions;
- insurance companies;
- tax-exempt organizations;
- partnerships and other entities treated as partnerships for U.S. federal income tax purposes or persons holding ordinary shares or ADSs through any such entities;
- real estate investment trusts;
- regulated investment companies;
- persons that hold ordinary shares or ADSs as part of a hedge, straddle, constructive sale, conversion transaction or other integrated investment;
- U.S. holders (as defined below) whose functional currency for tax purposes is not the U.S. dollar;
- certain former citizens or long-term residents of the United States;
- persons liable for alternative minimum tax; or
- persons who actually or constructively own 10.0% or more of the total combined voting power of all classes of our shares (including ADSs) entitled to vote or 10.0% or more of the total value of our shares (including ADSs).

This discussion is based on the U.S. Internal Revenue Code of 1986, as amended, or the Code, its legislative history, existing and proposed regulations promulgated thereunder, published rulings and court decisions, all as currently in effect. These laws are subject to change, possibly on a retroactive basis. In addition, this discussion relies in part on our assumptions regarding the projected value of our shares and the nature of our business. Finally, this discussion is based in part upon the representations of the depositary and the assumption that each obligation in the deposit agreement and any related agreement will be performed in accordance with its terms.

You should consult your own tax advisor concerning the particular U.S. federal income tax consequences to you of the purchase, ownership and disposition of our ordinary shares or ADSs, as well as the consequences to you arising under the laws of any other taxing jurisdiction.

For purposes of the U.S. federal income tax discussion below, you are a “U.S. holder” if you beneficially own our ordinary shares or ADSs and are:

- a citizen or resident of the United States for U.S. federal income tax purposes;
- a corporation, or other entity taxable as a corporation, that was created or organized in or under the laws of the United States or any political subdivision of the United States;
- an estate the income of which is subject to U.S. federal income tax regardless of its source; or
- a trust, if (1) a court within the United States is able to exercise primary supervision over its administration and one or more U.S. persons have the authority to control all substantial decisions of the trust, or (2) the trust has a valid election in effect to be treated as a U.S. person.

If a partnership or other flow-through entity holds ordinary shares or ADSs, the tax treatment of a partner or other owner will generally depend on the status of the partner or other owner and the activities of the partnership or other flow-through entity. A holder of ordinary shares or ADSs that is a partnership or a partner in such partnership should consult its own tax advisor regarding the U.S. federal income tax consequences of the purchase, ownership and disposition of the ordinary shares or ADSs.

ADSs. If you hold ADSs, for U.S. federal income tax purposes, you generally will be treated as the owner of the underlying ordinary shares that are represented by such ADSs. Accordingly, deposits or withdrawals of ordinary shares for ADSs will not be subject to U.S. federal income tax.

Dividends on Ordinary Shares or ADSs. Subject to the passive foreign investment company, or PFIC, discussion below, the gross amount of any distributions (including amounts withheld to reflect PRC withholding taxes, if any) you receive on your ordinary shares or ADSs are generally treated as dividend income if the distributions are made from our current or accumulated earnings and profits, calculated according to U.S. federal income tax principles. Such income (including any withheld taxes) will be includable in your gross income on the day actually or constructively received by you, in the case of ordinary shares, or by the depositary in the case of ADSs. Distributions in excess of current and accumulated earnings and profits will be treated first as a non-taxable return of capital to the extent of your basis in the ordinary shares or ADSs and thereafter as a capital gain. If you are a non-corporate U.S. holder, including an individual, and have held your ADSs for a sufficient period of time, dividend distributions paid on our ADSs (but not our ordinary shares) will generally constitute qualified dividend income taxed at a preferential rate as long as our ADSs continue to be readily tradable on the New York Stock Exchange. Based on existing guidance, it is not clear whether a dividend on an ordinary share will be treated as a qualified dividend, because the ordinary shares are not themselves listed on a U.S. exchange. If, however, we are treated as a PRC “resident enterprise” under PRC law, we may be eligible for the benefits of the income tax treaty between the United States and the PRC, in which case dividends paid on our ordinary shares and ADSs would both be treated as qualified dividends (subject to the relevant holding period requirements). You should consult your own tax advisor as to the rate of tax that will apply to you with respect to dividend distributions, if any, you receive from us.

We do not intend to calculate our earnings and profits according to U.S. tax accounting principles. Accordingly, notwithstanding the discussion in the preceding paragraph, distributions on our ordinary shares or ADSs, if any, will generally be taxed to you as dividend distributions for U.S. tax purposes. If you are a corporation, you will not be entitled to claim a dividends-received deduction with respect to distributions you receive from us. In the event we are treated as a PRC “resident enterprise” under PRC law, we may be required to withhold PRC income tax on dividends paid to you under the New EIT Law. See “Item 3.D. Key Information—Risk Factors—Risks related to our ADSs, ordinary shares and notes—We may be required to withhold PRC income tax on any dividend we pay you, and any gain you realize on the transfer of our ordinary shares and/or ADSs may also be subject to PRC withholding tax.” Subject to generally applicable limitations, you may be eligible to claim a deduction or a foreign tax credit for PRC tax withheld at the appropriate rate. Dividends generally will be categorized as “passive category income” or, in the case of some U.S. holders, as “general category income” for foreign tax credit limitation purposes. The rules governing the use of foreign tax credits are very complex, and you are urged to consult your own tax advisor as to your ability, and the various limitations on your ability, to claim foreign tax credits in connection with the receipt of dividends.

Sales and Other Dispositions of Ordinary Shares or ADSs. Subject to the PFIC discussion below, when you sell or otherwise dispose of ordinary shares or ADSs in a taxable transaction, you will generally recognize capital gain or loss in an amount equal to the difference between the amount realized on the sale or other taxable disposition and your adjusted tax basis in the ordinary shares or ADSs, both as determined in U.S. dollars. Any gain or loss you recognize will be long-term capital gain or loss if you have held the ordinary shares or ADSs for more than one year at the time of disposition. If you are an individual, long-term capital gain will be taxed at preferential rates. Your ability to deduct capital losses will be subject to various limitations.

The gain or loss you recognize on a sale or disposition of our ordinary shares or ADSs generally will be treated as arising from sources within the United States for foreign tax credit limitation purposes. However, if gains from the disposition of ordinary shares or ADSs are taxed under the New EIT Law, see “Item 3.D. Key Information—Risk Factors—Risks related to our ADSs, ordinary shares and notes—We may be required to withhold PRC income tax on any dividend we pay you, and any gain you realize on the transfer of our ordinary shares and/or ADSs may also be subject to PRC withholding tax,” the income tax treaty between the United States and the PRC may apply, in which case you may elect to treat such gains as arising from sources within China for foreign tax credit limitation purposes. You are urged to consult your own tax advisors regarding the tax consequences to you under your particular circumstances if any PRC withholding tax is imposed on the disposition of ordinary shares or ADSs, including the availability of the foreign tax credit.

Status as a PFIC. If we are a PFIC in any taxable year in which you hold ordinary shares or ADSs, you will generally be subject to additional taxes and interest charges on certain “excess distributions” we make and on any gain realized on the disposition or deemed disposition of your ordinary shares or ADSs, regardless of whether we continue to be a PFIC in the year in which you receive an “excess distribution” or dispose of or are deemed to dispose of your ordinary shares or ADSs. Distributions in respect of your ordinary shares or ADSs during a taxable year will generally constitute “excess distributions” if, in the aggregate, they exceed 125% of the average amount of distributions in respect of your ordinary shares or ADSs over the three preceding taxable years or, if shorter, the portion of your holding period before such taxable year.

To compute the tax on excess distributions or any gain, (1) the excess distribution or the gain will be allocated ratably to each day in your holding period, (2) the amount allocated to the current year and any tax year before we first became a PFIC will be taxed as ordinary income in the current year, (3) the amount allocated to other taxable years will be taxable at the highest applicable marginal rate in effect for that year, and (4) an interest charge at the rate for underpayment of taxes for any period described under (3) above will be imposed with respect to any portion of the excess distribution or gain that is allocated to such period. In addition, if we are a PFIC or were in the year prior to a distribution, no distribution that you receive from us will qualify for taxation at the preferential rate discussed in the “—U.S. Federal Income Taxation—Dividends on Ordinary Shares or ADSs” section above.

We will be classified as a PFIC in any taxable year if, after the application of certain look-through rules, either: (1) 75.0% or more of our gross income for the taxable year is passive income (such as certain dividends, interest, rents or royalties), or (2) the average percentage value (determined on a quarterly basis) of our gross assets during the taxable year that produce passive income or are held for the production of passive income is at least 50.0% of the value of our total assets. For purposes of the asset test, any cash, cash equivalents, cash invested in short-term, interest bearing, debt instruments, or bank deposits, and any other current asset that is readily convertible into cash, will generally count as a passive asset.

We operate an active online real estate Internet portal in China and do not believe we were a PFIC for our 2017 taxable years. We have no current intention to change the general manner in which we organize or conduct our business in later taxable years, not taking into account transactions outside of the ordinary course of business. Our expectations are based on assumptions as to our projections of the value of our outstanding shares and of the other cash that we will hold and generate in the ordinary course of our business. We have not conducted a separate appraisal of the values of our assets for this purpose. Although the law in this regard is not entirely clear, we treat our consolidated controlled entities as being owned by us for U.S. federal income tax purposes. Despite our expectations, there can be no assurance that we will not be a PFIC in the current or any future taxable years, as PFIC status is re-tested each year and depends on the actual facts in such year. We could be a PFIC, for example, if our market capitalization (i.e., our share price multiplied by the total number of our outstanding ordinary shares) at any time in the future is lower than projected, if it is determined that we are not the owner of our consolidated controlled entities for U.S. federal income tax purposes, or if our business and assets evolve in ways that are different from what we currently anticipate. In addition, though we believe that our assets and the income derived from our assets do not generally constitute passive assets and income under the PFIC rules, there is no assurance that the Internal Revenue Service, or IRS, will agree with us.

If we are a PFIC in any year, as a U.S. holder, you will generally be required to file a return on IRS Form 8621 regarding your ordinary shares or ADSs on an annual basis. You should consult your own tax adviser regarding reporting requirements with regard to your ordinary shares or ADSs.

If we are a PFIC in any year, so long as the ADSs are and remain “marketable,” you will be able to avoid the excess distribution rules described above by making a timely so-called “mark-to-market” election with respect to such U.S. holder’s ADSs. The ADSs will be “marketable” as long as they remain regularly traded on a national securities exchange, such as The New York Stock Exchange. If you make this election in a timely fashion, you will generally recognize as ordinary income or ordinary loss (limited to the amount of prior ordinary gain) the difference between the adjusted tax basis of your ADSs on the first day of any taxable year and their value on the last day of that taxable year. Your basis in the ADSs will be adjusted to reflect any such income or loss. A mark-to-market election will be effective for the taxable year for which the election is made and for all subsequent taxable years, unless the ADSs are no longer regularly traded on a qualified exchange or the IRS consents to the revocation of the election. However, because a mark-to-market election cannot be made for any lower-tier PFICs that we may own, you may continue to be subject to the PFIC rules with respect to any indirect interest in any investments held by us that are treated as an equity interest in a PFIC for U.S. federal income tax purposes, including our subsidiaries. In addition, because our ordinary shares are not regularly traded on a national securities exchange, you will not be able to make a mark-to-market election with respect to any ordinary shares held by such U.S. holder. You should consult your own tax advisors with respect to making a mark-to-market election.

In addition, if we are a PFIC in any year, you might be able to avoid the excess distribution rules described above by making a timely so-called “qualified electing fund,” or QEF, election to be taxed currently on your pro rata portion of our income and gain. However, we do not intend to provide the information that would be necessary for you to make a QEF election. Accordingly, you will not be able to make or maintain a QEF election with respect to your ADSs or ordinary shares.

You should consult with your tax advisors regarding the U.S. federal income tax consequences of holding ADSs or ordinary shares if we are considered to be a PFIC in any taxable year as well as your eligibility for a “mark-to-market” election and whether making such an election would be advisable to you in your particular circumstances.

Additional Tax on Net Investment Income

If you are an individual, estate or trust whose income exceeds certain thresholds, you will be subject to a 3.8% Medicare contribution tax on net investment income, including, among other things, dividends on, and capital gains from, the sale or other taxable disposition of, your ordinary shares or ADSs, subject to certain limitations and exceptions.

U.S. Information Reporting and Backup Withholding Rules

In general, dividend payments with respect to the ordinary shares or ADSs and the proceeds received on the sale or other disposition of those ordinary shares or ADSs may be subject to information reporting to the IRS, and to backup withholding (currently imposed at a rate of 28.0%). Backup withholding will not apply, however, if you (1) are a corporation or come within certain other exempt categories and, when required, can demonstrate that fact or (2) provide a taxpayer identification number, certify as to no loss of exemption from backup withholding and otherwise comply with the applicable backup withholding rules. To establish your status as an exempt person, you will generally be required to provide certification on IRS Form W-9. Any amounts withheld from payments to you under the backup withholding rules will generally be allowed as a refund or a credit against your U.S. federal income tax liability, provided that you timely furnish the required information to the IRS.

You may be required to report information with respect to your ordinary shares or ADSs not held through a custodial account with a U.S. financial institution to the IRS. In general, if you hold specified “foreign financial assets” (which generally would include ordinary shares or ADSs) with an aggregate value exceeding \$50,000, you will be required to report information about those assets on IRS Form 8938, which must be attached to your annual income tax return. Higher asset thresholds apply if you file a joint tax return or reside abroad. If you fail to report required information, you could become subject to substantial penalties. You should consult your own tax advisor regarding your obligation to file IRS Form 8938.

You should consult your own tax advisor regarding the application of the U.S. federal income tax laws to their particular situations as well as any additional tax consequences resulting from purchasing, holding or disposing of ordinary shares or ADSs, including the applicability and effect of the tax laws of any state, local or foreign jurisdiction and any estate, gift, and inheritance laws.

F. Dividends and Paying Agents

Not applicable.

G. Statement by Experts

Not applicable.

H. Documents on display

We have previously filed with the SEC our registration statement on Form F-1 (File Number 333-169170), as amended, and a prospectus under the Securities Act with respect to our ordinary shares represented by our ADSs, and a related registration statement on Form F-6 (File Number 333-169176) with respect to our ADSs, as amended. We have also filed with the SEC registration statements on Form S-8 (File Numbers 333-173157 and 333-207182) with respect to our ADSs, as amended. In addition, we have filed with the SEC an automatic shelf registration statement on Form F-3 (File Number 333-208628), as amended, and a prospectus under the Securities Act with respect to our ordinary shares and ADSs.

We are subject to the periodic reporting and other informational requirements of the Exchange Act. Under the Exchange Act, we are required to file reports and other information with the SEC. Specifically, we are required to file annually a Form 20-F within four months after the end of each fiscal year for fiscal years ending on or after December 15, 2011. Copies of reports and other information, when so filed, may be inspected without charge and may be obtained at prescribed rates at the public reference facilities maintained by the SEC at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. The public may obtain information regarding the Washington, D.C. Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains a web site at www.sec.gov that contains reports, proxy and information statements, and other information regarding registrants that make electronic filings with the SEC using its EDGAR system.

As a foreign private issuer, we are exempt from the rules of the Exchange Act prescribing the furnishing and content of quarterly reports and proxy statements, and our executive officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act. In addition, we are not required under the Exchange Act to file periodic reports and financial statements with the SEC as frequently or as promptly as U.S. companies whose securities are registered under the Exchange Act.

I. Subsidiary Information

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our primary market risk exposure is interest rate risk associated with short and long-term borrowings bearing variable interest rates and lease payments under leases tied to floating interest rates. To manage this interest rate exposure, we enter into interest rate swap and cap agreements. We are also exposed to foreign currency risk, which can adversely affect our operating profits.

The following discussion should be read in conjunction with the notes to our audited consolidated financial statements contained in this annual report, which provide further information on our debt and derivative instruments contained in this annual report.

Liquidity Risk

The principal method we use to manage liquidity risk arising from liabilities is maintaining an adequate level of cash and cash equivalents with different banks. In 2015, 2016 and 2017, we monitored our liquidity risks by considering the maturity of our financial assets and projected cash flows from operations. Our objective is to maintain a balance between a continuity of funding and flexibility through settlement from customers and subsequent payment to vendors to meet our working capital requirements.

Interest Rate Risk

Our earnings are affected by changes in interest rates due to the impact of such changes on interest income and expense from interest-bearing financial assets and liabilities. Our interest-bearing financial assets and liabilities are predominately denominated in Renminbi and U.S. dollars. Our financial assets consist primarily of cash deposits with fixed interest rates and receivables. Therefore, our exposure to interest rate risks has been insignificant.

Foreign Currency Risk

Substantially all of our revenues, cash and cash equivalent assets, costs and expenses, are denominated in Renminbi, and the functional currency of our principal operating subsidiaries and consolidated controlled entities is the Renminbi. On the other hand, a portion of our expenditures are denominated in foreign currencies, primarily the U.S. dollar, and we use the U.S. dollar as our functional and reporting currency. The ADSs are also traded in U.S. dollars. As a result, the value of your investment in our ADSs will be affected by fluctuations in exchange rates, particularly appreciation or depreciation in the value of the Renminbi relative to the U.S. dollar and other foreign currencies, without giving effect to any underlying change in our business or results of operations. For example, if the Renminbi had weakened 5.0% against the U.S. dollar with all other variables held constant, our loss for 2015 and 2016 would have been US\$3.8 million and US\$4.1 million lower, respectively, and our profit for 2017 would have been US\$0.8 million lower. See “Item 3.D. Key Information—Risk Factors—Risks related to doing business in China—Fluctuations in the exchange rates of the Renminbi could materially and adversely affect the value of our shares or ADSs and result in foreign currency exchange losses.”

From time to time we manage to convert Renminbi into foreign currencies for purchases of equipment from overseas suppliers and for certain expenses. The Renminbi is not freely convertible into foreign currencies. In July 2005, the PRC government discontinued pegging the Renminbi to the U.S. dollar. However, the PBOC, regularly intervenes in the foreign exchange market to prevent significant short-term fluctuations in the exchange rate. Nevertheless, under China’s current exchange rate regime, the Renminbi may appreciate or depreciate significantly in value against the U.S. dollar in the medium to long term.

Very limited hedging transactions are available in China to reduce our exposure to exchange rate fluctuations. To date, we have not entered into any hedging transactions to reduce our exposure to foreign currency exchange risk. While we may decide to enter into hedging transactions in the future, the availability and effectiveness of these hedging transactions may be limited and we may not be able to successfully hedge our exposure at all. In addition, our currency exchange losses may be magnified by PRC exchange control regulations that restrict our ability to convert Renminbi into other currencies.

Credit Risk

Assets that potentially subject us to significant concentration of credit risk primarily consist of cash and cash equivalents, restricted cash, fixed-rate time deposits classified as short-term investments, accounts receivable, funds receivable, loans receivable and commitment deposits. As of December 31, 2017, we had US\$0.5 million in cash and cash equivalents, restricted cash (current) and short-term investments, 95.5% and 4.5% of which were held by financial institutions in the PRC and financial institutions outside of the PRC, respectively. Under PRC law, it is generally required that a commercial bank in the PRC that holds third-party cash deposits protect the depositors’ rights and interests over their deposited money; PRC banks are subject to a series of risk control regulatory standards; and PRC bank regulatory authorities are empowered to take over the operation and management of any PRC bank that faces a material credit crisis. In the event of bankruptcy of one of the financial institutions in which we have deposits or investments, it may be unlikely to claim our deposits or investments back in full. We selected reputable financial institutions with high credit ratings to deposit its assets. We regularly monitor the ratings of the financial institutions in case of any defaults. There has been no recent history of default in relation to these financial institutions.

Accounts receivable are typically unsecured and are derived from revenue earned from customers in the PRC. The risk with respect to accounts receivable is mitigated by credit evaluations we perform on our customers and our ongoing monitoring of outstanding balances. We regularly review the creditworthiness of our customers and require collateral from our customers in certain circumstances when accounts receivables become long overdue.

Funds receivable represent amounts due from third-party payment service providers. We carefully consider and monitor the credit worthiness of the third-party payment service providers to mitigate any risks associated with funds receivable.

We are also exposed to default risk on our loans receivable. We assess the allowance for credit loss related to loans receivable on a quarterly basis, either on an individual or collective basis. As of December 31, 2017, no single borrower comprised a significant portion of our loan portfolio.

We regularly review the creditworthiness of real estate developers and require collateral from real estate developers in certain circumstances when commitment deposits become overdue.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

A. Debt Securities

Not applicable.

B. Warrants and Rights

Not applicable.

C. Other Securities

Not applicable.

D. American Depositary Shares

On March 18, 2014, we announced the change of the ratio of our American Depositary Receipts representing Class A ordinary shares from one ADS for one Class A ordinary shares to five ADSs for one Class A ordinary share. The record date for the ratio change was March 28, 2014. For our ADS holders, this ratio change had the same effect as a five-for-one ADS split. There was no change to our Class A ordinary shares or Class B ordinary shares. The effect of the ratio change on the ADS trading price on New York Stock Exchange occurred on April 7, 2014.

JPMorgan Chase Bank, N.A., our depositary, may charge each person to whom ADSs are issued, including, without limitation, issuances against deposits of shares, issuances in respect of share distributions, rights and other distributions, issuances pursuant to a stock dividend or stock split declared by us or issuances pursuant to a merger, exchange of securities or any other transaction or event affecting the ADSs or deposited securities, and each person surrendering ADSs for withdrawal of deposited securities in any manner permitted by the deposit agreement or whose ADRs are cancelled or reduced for any other reason, \$5.00 for each 100 ADSs (or any portion thereof) issued, delivered, reduced, cancelled or surrendered, the case may be. The depositary may sell (by public or private sale) sufficient securities and property received in respect of a share distribution, rights and/or other distribution prior to such deposit to pay such charge.

The following additional charges shall be incurred by the ADR holders, by any party depositing or withdrawing ordinary shares or by any party surrendering ADSs or to whom ADSs are issued (including, without limitation, issuance pursuant to a stock dividend or stock split declared by us or an exchange of stock regarding the ADRs or the deposited securities or a distribution of ADSs), whichever is applicable:

- a fee of \$1.50 per ADR or ADRs for transfers of certificated or direct registration ADRs;
- a fee of up to \$0.05 per ADS for any cash distribution made pursuant to the deposit agreement;
- a fee of up to \$0.05 per ADS per calendar year (or portion thereof) for services performed by the depositary in administering the ADRs (which fee may be charged on a periodic basis during each calendar year and shall be assessed against holders of ADRs as of the record date or record dates set by the depositary during each calendar year and shall be payable in the manner described in the next succeeding provision);
- reimbursement of such fees, charges and expenses as are incurred by the depositary and/or any of the depositary's agents (including, without limitation, the custodian and expenses incurred on behalf of holders in connection with compliance with foreign exchange control regulations or any law or regulation relating to foreign investment) in connection with the servicing of the ordinary shares or other deposited securities, the delivery of deposited securities or otherwise in connection with the depositary's or its custodian's compliance with applicable law, rule or regulation (which charge shall be assessed on a proportionate basis against holders as of the record date or dates set by the depositary and shall be payable at the sole discretion of the depositary by billing such holders or by deducting such charge from one or more cash dividends or other cash distributions);
- a fee for the distribution of securities (or the sale of securities in connection with a distribution), such fee being in an amount equal to the fee for the execution and delivery of ADSs which would have been charged as a result of the deposit of such securities (treating all such securities as if they were ordinary shares) but which securities or the net cash proceeds from the sale thereof are instead distributed by the depositary to those holders entitled thereto;
- stock transfer or other taxes and other governmental charges;

- cable, telex and facsimile transmission and delivery charges incurred at your request in connection with the deposit or delivery of ordinary shares;
- transfer or registration fees for the registration of transfer of deposited securities on any applicable register in connection with the deposit or withdrawal of deposited securities; and
- expenses of the depositary in connection with the conversion of foreign currency into U.S. dollars.

We will pay all other charges and expenses of the depositary and any agent of the depositary (except the custodian) pursuant to agreements from time to time between us and the depositary. The charges described above may be amended from time to time by agreement between us and the depositary.

Our depositary has agreed to reimburse us for certain expenses we incur that are related to establishment and maintenance of the ADR program, including investor relations expenses and exchange application and listing fees. Neither the depositary nor we can determine the exact amount to be made available to us because (1) the number of ADSs that will be issued and outstanding, (2) the level of fees to be charged to holders of ADSs, and (3) our reimbursable expenses related to the ADR program are not known at this time. The depositary collects its fees for issuance and cancellation of ADSs directly from investors depositing ordinary shares or surrendering ADSs for the purpose of withdrawal or from intermediaries acting for them. The depositary collects fees for making distributions to investors by deducting those fees from the amounts distributed or by selling a portion of distributable property to pay the fees. The depositary may collect its annual fee for depositary services by deduction from cash distributions, or by directly billing investors, or by charging the book-entry system accounts of participants acting for them. The depositary may generally refuse to provide services to any holder until the fees and expenses owing by such holder for those services or otherwise are paid.

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

Not applicable.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

A. Material Modifications to the Rights of Security Holders

None.

B. Use of Proceeds

Not applicable.

ITEM 15. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Our management, with the participation of our chief executive officer and chief financial officer, has performed an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of the end of the period covered by this report, as required by Rule 13a-15(b) under the Exchange Act.

Based upon that evaluation, our management has concluded that, as of December 31, 2017, our disclosure controls and procedures were not effective in certain respects, primarily due to the material weakness in our internal controls, as discussed below, to ensure that the information required to be disclosed by us in the reports that we file and furnish under the Exchange Act was recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms, and that the information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our chief executive officer and chief financial officer, to allow timely decisions regarding required disclosure.

Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) under the Exchange Act. Our management evaluated the effectiveness of our internal control over financial reporting, as required by Rule 13a-15(c) of the Exchange Act, based on criteria established in the Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework). Based on this evaluation, our management has concluded that our internal control over financial reporting was not effective as of December 31, 2017 due to the existence of a material weakness, as described below.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. In addition, projections of any evaluation of effectiveness of our internal control over financial reporting to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's financial statements will not be prevented or detected on a timely basis.

Failure in the design of controls to monitor and timely identify significant legal contingencies, or developments thereto, in order to perform appropriate accounting analysis and review, including related financial statement disclosures, as part of the financial statement close process.

Our material weakness is that in relation to a significant legal contingency, we did not appropriately design our controls to timely identify, communicate, and evaluate significant developments to ensure appropriate accounting is applied to the resolution of the contingency, including any settlements received subsequent to the balance sheet date.

Despite the fact that we failed to operate the abovementioned controls, we have properly corrected the resulting misstatements and included the appropriate disclosures to our consolidated financial statements.

Remediation Measures to Address the Material Weakness Identified

We are currently in the process of remediating the material weakness described above. We will dedicate resources and take the following steps to prevent a recurrence of the circumstances that resulted in the material misstatement:

- assessing the progress made on legal contingencies in a timely manner by formalizing a litigation inventory and tracking report on a quarterly basis prepared and reviewed by our internal legal group;
- improving timely communication between accounting team and internal legal group to address impact on the consolidated financial statements as a result of latest developments, if any, on legal contingencies; and
- establishing effective monitoring and oversight controls over the financial statement close process to ensure our controls over the analysis and accounting for material subsequent event transactions are operated as designed.

We believe the material weakness will be effectively remediated in the second half of 2018; however, the remediation cannot be considered effective until the operation of the improved controls occurs in the future and its operating effectiveness is tested successfully.

In addition, we intend to make further measures in its internal controls over financial reporting, including:

- forming a disclosure committee, which will comprise of key management personnel and the head of each department, including accounting, reporting, legal, HR, sales, treasury and IT department to discuss significant or unusual transactions occurred within each function and any issues may require further assessment of financial statements disclosure;
- improving the capabilities of existing financial reporting personnel through training and education in the accounting requirements under US GAAP; and
- strengthening internal audit testing function to timely detect and prevent control deficiencies on the financial statement close process.

Attestation Report of the Registered Public Accounting Firm

Our independent registered public accounting firm, Ernst & Young Hua Ming LLP, has audited the effectiveness of our internal control over financial reporting as of December 31, 2017, as stated in its report, which appears on page F-2 of this annual report.

Changes in Internal Control over Financial Reporting

There were no changes in our internal controls over financial reporting that occurred during the period covered by this annual report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Our board of directors has determined that Sam Hanhui Sun is an “audit committee financial expert” as defined by SEC rules, and that he satisfies the independence requirements of Section 303A of the New York Stock Exchange Listed Company Manual and Rule 10A-3 promulgated under the Exchange Act.

ITEM 16B. CODE OF ETHICS

Our board of directors has adopted our code of conduct and ethics, a code that applies to members of the board of directors including its chairman and other senior officers, including the chief executive officer, the chief financial officer and the chief operations officer. This code is publicly available on our website at ir.fang.com.

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

In January 2003, the SEC adopted rules requiring disclosure of fees billed by a public company's independent auditors in each of the company's two most recent fiscal years. Our auditors charged the following fees for professional services rendered for 2016 and 2017:

	<u>2016</u>	<u>2017</u>
	<u>(U.S. dollars in thousands)</u>	
Audit fees ⁽¹⁾	1,072	1,061
Audit-related fees ⁽²⁾	253	71
Tax Fees ⁽³⁾	<u>37</u>	<u>45</u>
Total	<u><u>1,363</u></u>	<u><u>1,177</u></u>

- (1) Audit Fees are defined as the standard audit work that needs to be performed each year in order to issue opinions on our consolidated financial statements and agreed-upon procedures performed in relation to interim financial information.
- (2) Audit-related fees include professional services rendered by the independent auditor associated with the audit work performed to issue opinions on the consolidated financial statements of certain of our subsidiaries in accordance with local GAAP.
- (3) Tax Fees include those tax services provided by the independent auditor for tax compliance, tax advice and tax planning.

Policy on Pre-Approval of Audit and Non-Audit Services of Independent Auditors

Our audit committee is responsible for pre-approving all audit and non-audit services provided by our auditor. These services may include audit services, audit related services, tax services and other services, as described above. Pre-approval is detailed as to the particular service or categories of services, and is subject to a specific budget. Our management and our auditor report to the audit committee regarding the extent of services provided in accordance with this pre-approval and the fees for the services performed to date on an annual basis. The audit committee may also pre-approve additional services on a case-by-case basis.

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

Not applicable.

ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

Not applicable.

ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT

Not applicable.

ITEM 16G. CORPORATE GOVERNANCE

As a foreign private issuer with shares listed on the New York Stock Exchange, we are subject to corporate governance requirements imposed by the New York Stock Exchange. Under Section 303A of the New York Stock Exchange Listed Company Manual, New York Stock Exchange listed non-US companies may, in general, follow their home country corporate governance practices in lieu of some of the New York Stock Exchange corporate governance requirements. A New York Stock Exchange listed non-U.S. company is simply required to provide a general summary of the significant differences to its U.S. investors either on the company website or in its annual report distributed to its U.S. investors.

We are committed to a high standard of corporate governance. As such, we endeavor to comply with most of the New York Stock Exchange corporate governance practices. However, the following are ways in which our current corporate governance practices differ from New York Stock Exchange corporate governance requirements since the laws of Cayman Islands do not require such compliance:

- We are not required to schedule an executive session at least once a year to be attended by only independent directors and all directors are currently entitled to attend all of our board meetings.
- We have not yet adopted or disclosed a method for interested parties to communicate directly with the presiding director or with non-management directors as a group.
- We are not required to obtain shareholder approval for the adoption of, or material revisions to, our equity compensation plans and our directors may amend, materially revise, or terminate our equity compensation plans, but no such action will affect any outstanding award in any manner materially adverse to a participant without the consent of the participant.
- Our compensation committee and our nominating and corporate governance committee are comprised with a majority of independent directors and not only independent directors. Our executive chairman, Mr. Mo, who serves on both our compensation committee and nominating and corporate governance committee, is not independent under the relevant New York Stock Exchange rules.

None of the above practices conflicts with the laws of the Cayman Islands or our fifth amended and restated memorandum and articles of association.

We may in the future determine to voluntarily comply with one or more of the foregoing provisions.

ITEM 16H. MINE SAFETY DISCLOSURE

Not applicable.

PART III

ITEM 17. FINANCIAL STATEMENTS

We have elected to provide financial statements pursuant to Item 18.

ITEM 18. FINANCIAL STATEMENTS

Our consolidated financial statements are included at the end of this annual report.

ITEM 19. EXHIBITS

We have filed the following documents as exhibits to this annual report:

<u>Exhibit No.</u>	<u>Description of Exhibit</u>
<u>1.1</u>	<u>Fifth Amended and Restated Memorandum and Articles of Association (incorporated by reference to Exhibit 99.2 of our Current Report on Form 6-K filed with the SEC on August 3, 2012).</u>
<u>2.1</u>	<u>Specimen ordinary share certificate (incorporated by reference to our Registration Statement on Form F-1 filed with the SEC on September 2, 2010).</u>
<u>2.2</u>	<u>Specimen American depositary receipt (incorporated by reference to our Registration Statement on Form F-6 filed with the SEC on March 18, 2014).</u>
<u>2.3</u>	<u>Form of Deposit Agreement (incorporated by reference to our Registration Statement on Form F-6 filed with the SEC on September 2, 2010).</u>
<u>2.4</u>	<u>Form of Amendment No. 1 to Deposit Agreement (incorporated by reference to Exhibit (a)(2) of our Registration Statement on Form F-6 filed with the SEC on January 31, 2011).</u>
<u>2.5</u>	<u>Form of Amendment No. 2 to Deposit Agreement (incorporated by reference to Exhibit (a)(3) of our Registration Statement on Form F-6 filed with the SEC on May 15, 2012).</u>
<u>2.6</u>	<u>Form of Amendment No. 3 to Deposit Agreement (incorporated by reference to Exhibit (a) of our Registration Statement on Form F-6 filed with the SEC on March 18, 2014).</u>
<u>2.7</u>	<u>Form of Restricted Deposit Agreement by and among SouFun Holdings Limited, JPMorgan Chase Bank, N.A. and the holders of American depositary receipts issued thereunder (incorporated by reference to Exhibit 99.3 of our Registration Statement on Form 6-K filed with the SEC on December 4, 2013).</u>
<u>2.8</u>	<u>Form of Indenture by and among SouFun Holdings Limited, JPMorgan Chase Bank, N.A. and the holders of American depositary receipts issued thereunder (incorporated by reference to Exhibit 99.2 of our Current Report on Form 6-K filed with the SEC on December 18, 2013).</u> <u>Certain instruments which define rights of holders of long-term debt of Fang and its subsidiaries are not being filed because the total amount of securities authorized under each such instrument does not exceed 10% of the total consolidated assets of SouFun and its subsidiaries. We will furnish a copy of each such instrument to the SEC upon request.</u>
<u>4.1</u>	<u>Registration Rights Agreement among SouFun Holdings Limited, Vincent Tianquan Mo, Next Decade, Media Partner, Digital Link, Shan Li, IDG-Accel China Capital L.P., and IDG-Accel China Capital Investors L.P., dated April 11, 2014 (incorporated by reference to Exhibit 4.2 of our Annual Report on Form 20-F filed with the SEC on April 30, 2014).</u>
<u>4.2</u>	<u>Termination and Release Agreement among SouFun Holdings Limited, General Atlantic and Apax, dated September 23, 2015 (incorporated by reference to Exhibit 4.3 of our Annual Report 20-F filed with the SEC on May 17, 2016).</u>
<u>4.3</u>	<u>Termination and Release Agreement among SouFun Holdings Limited, General Atlantic, Apax, Next Decade, Media Partner and Digital Link, dated September 23, 2015 (incorporated by reference to Exhibit 4.4 of our Annual Report 20-F filed with the SEC on May 17, 2016).</u>
<u>4.4</u>	<u>Registration Rights Agreement among SouFun Holdings Limited, Safari Group Holdings Limited and Safari Group CB Holdings Limited, dated September 24, 2015 (incorporated by reference to Exhibit 99.15 to the Schedule 13D filed with the SEC by Vincent Tianquan Mo on October 9, 2015).</u>
<u>4.5</u>	<u>Supplemental Agreement among SouFun Holdings Limited, IDG Alternative Global Limited and China Merchants Bank Co., Ltd., Tianjin Pilot Free Trade Zone Branch, dated November 4, 2015 (incorporated by reference to Exhibit 99.19 to the Amendment No. 1 to Schedule 13D filed with the SEC by Vincent Tianquan Mo on November 12, 2015).</u>

Exhibit No.	Description of Exhibit
4.6	Registration Rights Agreement among SouFun Holdings Limited, Karistone Limited and IDG-Accel China Capital L.P., dated November 10, 2015 (incorporated by reference to Exhibit 99.45 to the Amendment No. 1 to Schedule 13D filed with the SEC by Vincent Tianquan Mo on November 12, 2015).
4.7	Registration Rights Agreement among SouFun Holdings Limited, Karistone Limited and IDG-Accel China Capital Investors L.P., dated November 10, 2015 (incorporated by reference to Exhibit 99.46 to the Amendment No. 1 to Schedule 13D filed with the SEC by Vincent Tianquan Mo on November 12, 2015).
4.8	Registration Rights Agreement among SouFun Holdings Limited, Karistone Limited and Winning Star Global Limited, dated November 10, 2015 (incorporated by reference to Exhibit 99.47 to the Amendment No. 1 to Schedule 13D filed with the SEC by Vincent Tianquan Mo on November 12, 2015).
4.9	Registration Rights Agreement among SouFun Holdings Limited, Karistone Limited and Rainbow Zone Enterprise Inc, dated November 10, 2015 (incorporated by reference to Exhibit 99.48 to the Amendment No. 1 to Schedule 13D filed with the SEC by Vincent Tianquan Mo on November 12, 2015).
4.10	Registration Rights Agreement among SouFun Holdings Limited, Karistone Limited and Chuang Xi Capital Holdings Limited, dated November 10, 2015 (incorporated by reference to Exhibit 99.49 to the Amendment No. 1 to Schedule 13D filed with the SEC by Vincent Tianquan Mo on November 12, 2015).
4.11	Registration Rights Agreement among SouFun Holdings Limited, Karistone Limited and Wealth Harvest Global Limited, dated November 10, 2015 (incorporated by reference to Exhibit 99.50 to the Amendment No. 1 to Schedule 13D filed with the SEC by Vincent Tianquan Mo on November 12, 2015).
4.12	Stock Related Award Incentive Plan of 1999 (incorporated by reference to our Registration Statement on Form F-1 filed with the SEC on September 2, 2010).
4.13	2010 Stock Incentive Plan (incorporated by reference to our Registration Statement on Form F-1 filed with the SEC on September 2, 2010).
4.14	2015 Stock Incentive Plan (incorporated by reference to Exhibit 99.2 to our Current Report on Form 6-K filed with the SEC on July 6, 2015).
4.15	Form of Employment Agreement (incorporated by reference to our Registration Statement on Form F-1 filed with the SEC on September 2, 2010).
4.16	Form of Indemnification Agreement (incorporated by reference to our Registration Statement on Form F-1 filed with the SEC on September 2, 2010).
4.17	Form of Loan Agreement between and among Beijing Tuo Shi Huan Yu, SouFun Media or SouFun Network, Mr. Mo and/or Mr. Dai as shareholders of a consolidated controlled entity (incorporated by reference to Exhibit 4.19 of our Annual Report 20-F filed with the SEC on May 17, 2016).
4.17.1	Schedule of Loan Agreements between and among certain PRC subsidiary of Fang Holdings Limited and shareholders of a consolidated controlled entity (incorporated by reference to Exhibit 4.17.1 of our Annual Report on Form 20-F filed with the SEC on May 12, 2017).
4.18	Form of Creditor's Rights Transfer Agreement among Beijing Zhong Zhi Shi Zheng or Jia Tian Xia Network, Beijing Tuo Shi Huan Yu, SouFun Media or SouFun Network, and Mr. Mo and/or Mr. Dai as shareholders of a consolidated controlled entity (incorporated by reference to Exhibit 4.20 of our Annual Report 20-F filed with the SEC on May 17, 2016).
4.18.1	Schedule of Creditor's Rights Transfer Agreements among certain PRC subsidiaries of Fang Holdings Limited and shareholders of certain consolidated controlled entity (incorporated by reference to Exhibit 4.18.1 of our Annual Report on Form 20-F filed with the SEC on May 12, 2017).
4.19	Form of Equity Pledge Agreement among Beijing Zhong Zhi Shi Zheng or Jia Tian Xia Network, Mr. Mo and/or Mr. Dai and/or other shareholders of a consolidated controlled entity pledging the shares of the consolidated controlled entity (incorporated by reference to Exhibit 4.21 of our Annual Report 20-F filed with the SEC on May 17, 2016).
4.19.1	Schedule of Equity Pledge Agreements among certain PRC subsidiary of Fang Holdings Limited and shareholders of a consolidated controlled entity (incorporated by reference to Exhibit 4.19.1 of our Annual Report on Form 20-F filed with the SEC on May 12, 2017).
4.20	Form of Shareholders' Proxy Agreement among Beijing Zhong Zhi Shi Zheng or Jia Tian Xia Network, a consolidated controlled entity, Mr. Mo and/or Mr. Dai and/or other shareholders of the consolidated controlled entity (incorporated by reference to Exhibit 4.22 of our Annual Report 20-F filed with the SEC on May 17, 2016).
4.20.1	Schedule of Shareholders' Proxy Agreements among certain PRC subsidiary of Fang Holdings Limited, a consolidated controlled entity and shareholders of the consolidated controlled entity (incorporated by reference to Exhibit 4.20.1 of our Annual Report on Form 20-F filed with the SEC on May 12, 2017).
4.21	Form of Operating Agreement among Beijing Zhong Zhi Shi Zheng or Jia Tian Xia Network, a consolidated controlled entity, Mr. Mo and/or Mr. Dai and/or other shareholders of the consolidated controlled entity (incorporated by reference to Exhibit 4.23 of our Annual Report 20-F filed with the SEC on May 17, 2016).

Exhibit No.	Description of Exhibit
4.21.1	<u>Schedule of Operating Agreements among certain PRC subsidiary of Fang Holdings Limited, a consolidated controlled entity and shareholders of the consolidated controlled entity (incorporated by reference to Exhibit 4.21.1 of our Annual Report on Form 20-F filed with the SEC on May 12, 2017).</u>
4.22	<u>Form of Exclusive Technical Consultancy and Services Agreement between Beijing Zhong Zhi Shi Zheng or Jia Tian Xia Network and a consolidated controlled entity (incorporated by reference to Exhibit 4.24 of our Annual Report 20-F filed with the SEC on May 17, 2016).</u>
4.22.1	<u>Schedule of Exclusive Technical Consultancy and Services Agreements between certain PRC subsidiary of Fang Holdings Limited and a consolidated controlled entity (incorporated by reference to Exhibit 4.22.1 of our Annual Report on Form 20-F filed with the SEC on May 12, 2017).</u>
4.23	<u>Form of Exclusive Call Option Agreement among SouFun Holdings Limited, Mr. Mo and/or Mr. Dai and/or other shareholders of a consolidated controlled entity, the consolidated controlled entity and Beijing Zhong Zhi Shi Zheng and/or Jia Tian Xia Network (incorporated by reference to Exhibit 4.25 of our Annual Report 20-F filed with the SEC on May 17, 2016).</u>
4.23.1	<u>Schedule of Exclusive Call Option Agreements among SouFun Holdings Limited, shareholders of a consolidated controlled entity, the consolidated controlled entity and certain PRC subsidiaries of Fang Holdings Limited (incorporated by reference to Exhibit 4.23.1 of our Annual Report on Form 20-F filed with the SEC on May 12, 2017).</u>
4.24	<u>Form of Intra-group Memorandum of Understanding between SouFun Network or SouFun Media and a consolidated controlled entity (incorporated by reference to our Registration Statement on Form F-1 filed with the SEC on September 2, 2010).</u>
4.24.1	<u>Schedule of Intra-group Memorandums of Understanding between certain PRC subsidiary of SouFun Holdings Limited and a consolidated controlled entity (incorporated by reference to Exhibit 4.16.1 of our Annual Report 20-F filed with the SEC on April 26, 2012).</u>
4.25	<u>Summary Translation of Strategic Cooperation Agreement between Beijing SouFun Network Technology Co., Ltd. and Shenzhen World Union Properties Consultancy Co., Ltd. (incorporated by reference to Exhibit 99.4 of our Current Report on Form 6-K filed with the SEC on July 11, 2014).</u>
4.26	<u>Summary Translation of Investment and Cooperation Framework Agreement between SouFun Holdings Limited and Hopefluent Group Holdings Limited (incorporated by reference to Exhibit 99.5 of our Current Report on Form 6-K filed with the SEC on July 11, 2014).</u>
4.27	<u>Summary Translation of Joint Venture Agreement between SouFun Holdings Limited and Tospur Real Estate Consulting Co., Ltd. (incorporated by reference to Exhibit 99.3 of our Current Report on Form 6-K filed with the SEC on November 13, 2014).</u>
4.28	<u>Summary Translation of Shareholders Agreement among Beijing China Index Information Co., Ltd., Shanghai SouFun Advertising Co., Ltd., Beijing Tian Xia Dai Information Service Co., Ltd., Beijing RunZe Microfinance Co., Ltd. and certain other parties thereto (incorporation by reference to Exhibit 4.36 of our Annual Report on Form 20-F filed with the SEC on April 28, 2015).</u>
4.29	<u>Summary Translation of Investment and Cooperation Agreement between SouFun Holdings Limited and Colour Life Services Group Co., Limited (incorporation by reference to Exhibit 4.37 of our Annual Report on Form 20-F filed with the SEC on April 28, 2015).</u>
4.30	<u>Subscription Agreement between SouFun Holdings Limited and IDG Alternative Global Limited, dated September 17, 2015 (incorporated by reference to Exhibit 99.2 of our Current Report on Form 6-K filed with the SEC on September 21, 2015).</u>
4.31	<u>Subscription Agreement among SouFun Holdings Limited, Safari Group Holdings Limited, Safari Group CB Holdings Limited and Safari Parent Limited, dated September 17, 2015 (incorporated by reference to Exhibit 99.3 of our Current Report on Form 6-K filed with the SEC on September 21, 2015).</u>
4.32	<u>Subscription Agreement Supplement among SouFun Holdings Limited, Safari Group Holdings Limited and Safari Group CB Holdings Limited, dated November 23, 2015 (incorporated by reference to Exhibit 99.2 of our Current Report on Form 6-K filed with the SEC on November 23, 2015).</u>
4.33	<u>Convertible Note (US\$28.00 million) by SouFun Holdings Limited, dated September 24, 2015 (incorporated by reference to Exhibit 99.3 to the Schedule 13D filed with the SEC by Vincent Tianquan Mo on October 9, 2015).</u>
4.34	<u>Convertible Note (US\$72.00 million) by SouFun Holdings Limited, dated September 24, 2015 (incorporated by reference to Exhibit 99.4 to the Schedule 13D filed with the SEC by Vincent Tianquan Mo on October 9, 2015).</u>
4.35	<u>Subscription Agreement Supplement between IDG Alternative Global Limited and SouFun Holdings Limited, dated October 29, 2015 (incorporated by reference to Exhibit 99.17 to the Amendment No. 1 to Schedule 13D filed with the SEC by Vincent Tianquan Mo on November 12, 2015).</u>

Exhibit No.	Description of Exhibit
4.36	Letter Agreement between IDG Alternative Global Limited and SouFun Holdings Limited, dated November 4, 2015 (incorporated by reference to Exhibit 99.18 to the Amendment No. 1 to Schedule 13D filed with the SEC by Vincent Tianquan Mo on November 12, 2015).
4.37	Supplemental Agreement among the IDG Alternative Global Limited, China Merchants Bank Co., Ltd., Tianjin Pilot Free Trade Zone Branch and SouFun Holdings Limited, dated November 4, 2015 (incorporated by reference to Exhibit 99.19 to the Amendment No. 1 to Schedule 13D filed with the SEC by Vincent Tianquan Mo on November 12, 2015).
4.38	Convertible Note (US\$200.00 million) by SouFun Holdings Limited, dated November 4, 2015 (incorporated by reference to Exhibit 99.20 to the Amendment No. 1 to Schedule 13D filed with the SEC by Vincent Tianquan Mo on November 12, 2015).
4.39	Subscription Agreement between SouFun Holdings Limited and Karistone Limited, dated November 9, 2015 (incorporated by reference to Exhibit 99.26 to the Amendment No. 1 to Schedule 13D filed with the SEC by Vincent Tianquan Mo on November 12, 2015).
4.40	Subscription Agreement between SouFun Holdings Limited and IDG-Accel China Capital L.P., dated November 9, 2015 (incorporated by reference to Exhibit 99.11 of our Current Report on Form 6-K filed with the SEC on November 23, 2015).
4.41	Subscription Agreement between SouFun Holdings Limited and IDG-Accel China Capital Investors L.P., dated November 9, 2015 (incorporated by reference to Exhibit 99.12 of our Current Report on Form 6-K filed with the SEC on November 23, 2015).
4.42	Subscription Agreement between SouFun Holdings Limited and Winning Star Global Limited, dated November 9, 2015 (incorporated by reference to Exhibit 99.13 of our Current Report on Form 6-K filed with the SEC on November 23, 2015).
4.43	Subscription Agreement between SouFun Holdings Limited and Rainbow Zone Enterprise Inc, dated November 9, 2015 (incorporated by reference to Exhibit 99.14 of our Current Report on Form 6-K filed with the SEC on November 23, 2015).
4.44	Subscription Agreement between SouFun Holdings Limited and Chuang Xi Capital Holdings Limited, dated November 9, 2015 (incorporated by reference to Exhibit 99.15 of our Current Report on Form 6-K filed with the SEC on November 23, 2015).
4.45	Subscription Agreement between SouFun Holdings Limited and Wealth Harvest Global Limited, dated November 9, 2015 (incorporated by reference to Exhibit 99.16 of our Current Report on Form 6-K filed with the SEC on November 23, 2015).
4.46	Summary Translation of Cooperation Framework Agreement among SouFun Holdings Limited, Chongqing Wanli New Energy Co., Ltd. and other relevant parties, dated November 13, 2015 (incorporated by reference to Exhibit 99.3 of our Current Report on Form 6-K filed with the SEC on November 13, 2015).
4.47	Summary Translation of Share Subscription Agreement among Beijing SouFun Fang Tian Xia Network Technology Co., Ltd., Beijing Fang Tian Xia Network Technology Co., Ltd., Beijing SouFun Decorative Engineering Co., Ltd., Beijing SouFun Science and Technology Development Co., Ltd., Chongqing Wanli New Energy Co., Ltd. and other relevant parties, dated January 19, 2016 (incorporated by reference to Exhibit 99.2 of our Current Report on Form 6-K filed with the SEC on January 22, 2016).
4.48	Summary Translation of Compensation Agreement among Beijing SouFun Fang Tian Xia Network Technology Co., Ltd., Beijing Fang Tian Xia Network Technology Co., Ltd., Beijing SouFun Decorative Engineering Co., Ltd. and Chongqing Wanli New Energy Co., Ltd., dated January 19, 2016 (incorporated by reference to Exhibit 99.3 of our Current Report on Form 6-K filed with the SEC on January 22, 2016).
4.49	Summary Translation of the Non-compete Agreement among Vincent Tianquan Mo, SouFun Holdings Limited and Chongqing Wanli New Energy Co., Ltd., dated May 2, 2016 (incorporated by reference to Exhibit 4.58 of our Annual Report 20-F filed with the SEC on May 17, 2016).
4.50	Summary Translation of Commercial Properties Purchase Agreement between Beijing SouFun Network Technology Co., Ltd. and Beijing Jinyu Dacheng Co., Ltd., dated November 10, 2015 (incorporated by reference to Exhibit 99.3 of our Current Report on Form 6-K filed with the SEC on November 23, 2015).
4.51	Summary Translation of Share Subscription and Asset Purchase Termination Agreement among Beijing SouFun Fang Tian Xia Network Technology Co., Ltd., Beijing Fang Tian Xia Network Technology Co., Ltd., Beijing SouFun Decorative Engineering Co., Ltd., Beijing SouFun Science and Technology Development Co., Ltd., Chongqing Wanli New Energy Co., Ltd. and other relevant parties, dated February 22, 2017 (incorporated by reference to Exhibit 4.51 of our Annual Report on Form 20-F filed with the SEC on May 12, 2017).
8.1	List of Principal Subsidiaries and Consolidated Controlled Entities (incorporated by reference to Exhibit 8.1 of our Annual Report on Form 20-F filed with the SEC on May 12, 2017).
11.1	Code of Business Conduct and Ethics (incorporated by reference to Exhibit 99.1 of our Registration Statement on Form F-1 filed with the SEC on September 2, 2010).
12.1*	Certification of Chief Executive Officer required by Rule 13a-14(a) (17 CFR 240.13a-14(a)) or Rule 15d-14(a) (17 CFR 240.15d-14(a)).

Exhibit No.	Description of Exhibit
<u>12.2*</u>	<u>Certification of Chief Financial Officer required by Rule 13a-14(a) (17 CFR 240.13a-14(a)) or Rule 15d-14(a) (17 CFR 240.15d-14(a)).</u>
<u>13.1**</u>	<u>Certification of Chief Executive Officer required by Rule 13a-14(b) (17 CFR 240.13a-14(b)) or Rule 15d-14(b) (17 CFR 240.15d-14(b)) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350).</u>
<u>13.2**</u>	<u>Certification of Chief Financial Officer required by Rule 13a-14(b) (17 CFR 240.13a-14(b)) or Rule 15d-14(b) (17 CFR 240.15d-14(b)) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350).</u>
<u>15.1*</u>	<u>Consent of Jingtian & Gongcheng.</u>
<u>15.2*</u>	<u>Consent of Ernst & Young Hua Ming LLP.</u>
101.INS*	XBRL Instance Document.
101.SCH*	XBRL Taxonomy Extension Schema Document.
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document.

* Filed herewith

** Furnished herewith

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

FANG HOLDINGS LIMITED

By: /s/ Vincent Tianquan Mo

Name: Vincent Tianquan Mo

Title: Executive Chairman

Date: May 15, 2018

Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of Fang Holdings Limited

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Fang Holdings Limited (the Company) as of December 31, 2017 and 2016, the related consolidated statements of comprehensive income (loss), shareholders' equity and cash flows for each of the three years in the period ended December 31, 2017, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), and our report dated May 15, 2018 expressed an adverse opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young Hua Ming LLP

We have served as the Company's auditor since 2008.

Shenzhen, The People's Republic of China
May 15, 2018

Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of Fang Holdings Limited

Opinion on Internal Control over Financial Reporting

We have audited Fang Holdings Limited's internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, because of the effect of the material weakness described below on the achievement of the objectives of the control criteria, Fang Holdings Limited (the Company) has not maintained effective internal control over financial reporting as of December 31, 2017, based on the COSO criteria.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. The following material weakness has been identified and included in management's assessment. Management has identified a material weakness related to the design of controls to monitor and timely identify significant legal contingencies, or developments thereto, in order to perform appropriate accounting analysis and review, including related financial statement disclosures, as part of the financial statement close process.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2017 and 2016, the related consolidated statements of comprehensive income (loss), shareholders' equity and cash flows for each of the three years in the period ended December 31, 2017, and the related notes. This material weakness was considered in determining the nature, timing and extent of audit tests applied in our audit of the 2017 consolidated financial statements, and this report does not affect our report dated May 15, 2018, which expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young Hua Ming LLP
Shenzhen, The People's Republic of China
May 15, 2018

FANG HOLDINGS LIMITED
CONSOLIDATED BALANCE SHEETS
(Amounts in thousands of United States Dollars (“US\$”), except for number of shares)

	Notes	As of December 31,	
		2016 US\$	2017 US\$
ASSETS			
Current assets:			
Cash and cash equivalents		336,528	228,276
Restricted cash, current		211,084	223,002
Short-term investments	4	42,929	55,801
Accounts receivable (net of allowance of US\$34,366 and US\$31,127 as of December 31, 2016 and 2017, respectively)	5	93,672	66,884
Funds receivable (net of allowance of US\$2,322 and nil as of December 31, 2016 and 2017, respectively)		20,483	6,264
Prepayments and other current assets	6	39,824	32,704
Commitment deposits (net of allowance of nil and US\$206 as of December 31, 2016 and 2017, respectively)		6,527	5,876
Loans receivable, current	7	41,966	129,438
Amounts due from a related party	18	197	167
Total current assets		<u>793,210</u>	<u>748,412</u>
Non-current assets:			
Property and equipment, net	8	319,897	622,145
Land use right		-	35,728
Loans receivable, non-current	7	16,808	14,674
Deferred tax assets	16	4,915	7,602
Restricted cash, non-current		-	39,982
Deposit for non-current assets	9	240,712	58,722
Long-term investments	4	231,880	470,964
Other non-current assets	10	7,391	2,026
Total non-current assets		<u>821,603</u>	<u>1,251,843</u>
Total assets		<u>1,614,813</u>	<u>2,000,255</u>

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

FANG HOLDINGS LIMITED
CONSOLIDATED BALANCE SHEETS (continued)
(Amounts in thousands of United States Dollars (“US\$”), except for number of shares)

	<u>Notes</u>	<u>As of December 31,</u>	
		<u>2016</u>	<u>2017</u>
		US\$	US\$
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Short-term loans (including short-term loans of the People's Republic of China (“PRC”) Domestic Entities and the PRC Domestic Entities' subsidiaries without recourse to the Company of US\$22,734 and US\$59,820 as of December 31, 2016 and 2017, respectively)	11	212,734	236,985
Deferred revenue (including deferred revenue of the PRC Domestic Entities and the PRC Domestic Entities' subsidiaries without recourse to the Company of US\$21,744 and US\$27,095 as of December 31, 2016 and 2017, respectively)		129,765	168,884
Accrued expenses and other liabilities (including accrued expenses and other liabilities of the PRC Domestic Entities and the PRC Domestic Entities' subsidiaries without recourse to the Company of US\$106,459 and US\$54,516 as of December 31, 2016 and 2017, respectively)	12	318,539	158,799
Customers' refundable fees (including customers' refundable fees of the PRC Domestic Entities and the PRC Domestic Entities' subsidiaries without recourse to the Company of US\$18,295 and US\$ 10,986 as of December 31, 2016 and 2017, respectively)	13	28,630	7,070
Income tax payable (including income tax payable of the PRC Domestic Entities and the PRC Domestic Entities' subsidiaries without recourse to the Company of US\$199 and US\$1,325 as of December 31, 2016 and 2017, respectively)		6,022	4,374
Convertible senior notes	14	-	5,700
Total current liabilities		<u>695,690</u>	<u>581,812</u>
Non-current liabilities:			
Long-term loans (including long-term loans of the PRC Domestic Entities and the PRC Domestic Entities' subsidiaries without recourse to the Company of US\$65,190 and US\$55,958 as of December 31, 2016 and 2017, respectively)	11	65,190	114,109
Convertible senior notes	14	295,268	291,365
Deferred tax liabilities	16	70,424	126,641
Other non-current liabilities		416	146,053
Total non-current liabilities		<u>431,298</u>	<u>678,168</u>
Total liabilities		<u>1,126,988</u>	<u>1,259,980</u>
Commitments and contingencies	20		

FANG HOLDINGS LIMITED
CONSOLIDATED BALANCE SHEETS (continued)
(Amounts in thousands of United States Dollars (“US\$”), except for number of shares)

	Notes	As of December 31,	
		2016 US\$	2017 US\$
Shareholders' equity:			
Class A ordinary shares, par value Hong Kong Dollar (“HK\$”) 1 per share, 600,000,000 shares authorized for Class A and Class B in aggregate, issued shares as of December 31, 2016 and 2017: 71,077,816 and 71,425,120; outstanding shares as of December 31, 2016 and 2017: 64,012,758 and 64,360,062	15	9,157	9,204
Class B ordinary shares, par value HK\$1 per share, 600,000,000 shares authorized for Class A and Class B in aggregate, and 24,336,650 shares and 24,336,650 shares issued and outstanding as at December 31, 2016 and 2017, respectively	15	3,124	3,124
Additional paid-in capital		488,943	500,666
Accumulated other comprehensive (loss) income	15	(81,349)	137,630
Retained earnings		203,870	225,574
Less: Treasury stock (7,065,058 and 7,065,058 shares as of December 31, 2016 and 2017, respectively.)	15	(136,615)	(136,615)
Total Fang Holdings Limited shareholders' equity		<u>487,130</u>	<u>739,583</u>
Noncontrolling interests		695	692
Total shareholders' equity		<u>487,825</u>	<u>740,275</u>
Total liabilities and shareholders' equity		<u>1,614,813</u>	<u>2,000,255</u>

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

FANG HOLDINGS LIMITED
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Amounts in thousands of United States Dollars (“US\$”), except for number of shares and per share data)

	Notes	For the Years Ended December 31,		
		2015 US\$	2016 US\$	2017 US\$
Revenues				
E-commerce services		474,810	577,684	87,809
Marketing services		249,862	165,437	149,267
Listing services		107,922	118,109	165,374
Financial services		29,582	29,602	12,055
Other value-added services		21,373	25,559	29,791
Total gross revenues		<u>883,549</u>	<u>916,391</u>	<u>444,296</u>
Cost of revenues				
Cost of services		(555,389)	(687,184)	(174,599)
Total cost of revenues		<u>(555,389)</u>	<u>(687,184)</u>	<u>(174,599)</u>
Gross profit		<u>328,160</u>	<u>229,207</u>	<u>269,697</u>
Operating (expenses) income				
Selling expenses		(236,603)	(229,817)	(91,250)
General and administrative expenses (including related party amounts of US\$776, US\$897 and US\$501 for the years ended December 31, 2015, 2016 and 2017, respectively)		(125,405)	(151,251)	(135,688)
Other income (loss)		(625)	415	(567)
Operating income (loss)		<u>(34,473)</u>	<u>(151,446)</u>	<u>42,192</u>
Foreign exchange (loss) gain		1,464	(1,882)	15
Interest income		22,221	11,367	11,322
Interest expense		(16,519)	(20,791)	(16,153)
Change in fair value of trading securities	4	-	-	518
Realized gain on sale available-for-sale security (including accumulated other comprehensive income reclassifications for unrealized gain on available-for-sale security of US\$10,583, US\$2,736 for the year ended December 31, 2016, 2017)	4	-	10,583	2,736
Government grants		4,936	6,469	3,154
Investment income	4	1,333	3,281	6,692
Other non-operating loss		-	-	(4,562)
Impairment on investments	4	-	(2,232)	(2,768)
Income (loss) before income taxes and noncontrolling interests		<u>(21,038)</u>	<u>(144,651)</u>	<u>43,146</u>
Income tax (expense) benefit	16	5,905	(24,984)	(21,442)
Net income (loss)		<u>(15,133)</u>	<u>(169,635)</u>	<u>21,704</u>
Net loss attributable to noncontrolling interests		(37)	-	(3)
Net income (loss) attributable to Fang Holdings Limited’s shareholders		(15,096)	(169,635)	21,707

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

FANG HOLDINGS LIMITED
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (continued)
(Amounts in thousands of United States Dollars (“US\$”), except for number of shares and per share data)

	Notes	For the Years Ended December 31,		
		2015 US\$	2016 US\$	2017 US\$
Other comprehensive income (loss), before tax				
Foreign currency translation adjustments		(55,928)	(60,732)	56,571
Amounts reclassified from accumulated other comprehensive income		-	(10,583)	(2,736)
Unrealized gain (loss) on available-for-sale securities		(4,002)	7,326	212,838
Gain (loss) on intra-entity foreign transactions of long-term-investment nature			(6,996)	1,872
Other comprehensive income (loss), before tax		(59,930)	(70,985)	268,545
Income tax expense related to components of other comprehensive income		-	-	(49,566)
Other comprehensive income (loss), net of tax		(59,930)	(70,985)	218,979
Comprehensive income (loss)		(75,063)	(240,620)	240,683
Comprehensive loss attributable to noncontrolling interests		(37)	-	(3)
Comprehensive income (loss) attributable to Fang Holdings Limited’s shareholders		<u>(75,026)</u>	<u>(240,620)</u>	<u>240,686</u>
Earnings (loss) per share for Class A and Class B ordinary shares				
Basic	22	(0.18)	(1.81)	0.25
Diluted	22	(0.18)	(1.81)	0.24
Weighted average number of Class A and Class B ordinary shares outstanding:				
Basic	22	85,170,886	93,605,749	88,475,665
Diluted	22	85,170,886	93,605,749	91,585,677

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

FANG HOLDINGS LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in thousands of United States Dollars (“US\$”))

	For the Years Ended December 31,		
	2015	2016	2017
	US\$	US\$	US\$
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income (loss)	(15,133)	(169,635)	21,704
Adjustments to reconcile net income (loss) to net cash generated from (used in) operating activities:			
Share-based compensation	4,497	6,552	7,218
Depreciation of property and equipment	14,668	25,004	27,961
Deferred tax benefits	(32,361)	(2,250)	(317)
Allowance for doubtful accounts	18,649	29,712	32,614
Allowance for funds receivable	-	2,322	-
Realized and unrealized gain related to investment securities	-	(10,583)	(3,254)
Impairment on investments	-	2,232	2,768
Amortization of loan origination costs	1,393	1,302	191
Amortization of issuance costs for convertible senior notes	3,196	4,964	1,797
Loss on disposal of property and equipment	-	719	5,571
Deemed rental expense (Note 18)	169	154	159
Allowance for commitment deposit	-	-	206
Changes in operating assets and liabilities:			
Accounts receivable	(118,797)	16,190	(437)
Funds receivable	13,177	7,769	2,330
Prepayments and other current assets	(35,333)	16,730	9,405
Commitment deposits	36,666	4,119	816
Loans receivable, current	(53,340)	214,824	30,901
Loans receivable, non-current	(192,059)	36,158	14,800
Amounts due from a related party	(262)	273	(445)
Other non-current assets	2,250	(317)	5,644
Deferred revenue	33,099	(6,535)	30,260
Accrued expenses and other liabilities	106,412	(17,574)	(39,343)
Customers’ refundable fees	19,161	(27,580)	(22,651)
Income tax payable	29,346	(3,437)	(1,685)
Amounts due to a related party	(657)	-	-
Other non-current liabilities	(51)	127	676
Net cash generated from (used in) operating activities	(165,310)	131,240	126,889

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

FANG HOLDINGS LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
(Amounts in thousands of United States Dollars (“US\$”))

	For the Years Ended December 31,		
	2015	2016	2017
	US\$	US\$	US\$
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of short-term investments	(129,759)	(73,804)	(383,064)
Proceeds from maturity of fixed-rate time deposits	507,007	89,952	373,363
Proceeds from disposal of available-for-sale securities	-	13,074	13,931
Acquisition of property and equipment	(45,151)	(24,576)	(65,885)
Origination of loans receivable	-	-	(212,824)
Repayment of loans receivable	-	-	86,931
Purchase of land use right	(54)	-	(34,263)
Acquisition of long-term investments	(127,388)	(4,902)	(13,000)
Proceeds from disposal of property and equipment	635	924	5,755
Deposits for non-current assets	(146,728)	(128,614)	(55,456)
Net cash (used in) generated from investing activities	58,562	(127,946)	(284,512)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of Class A ordinary shares	346,775	-	-
Proceeds from exercise of share options	8,416	1,664	4,785
Proceeds from issuance of shares by a PRC Domestic Entity’s subsidiary	718	-	-
Proceeds from short-term loans	72,750	296,558	-
Proceeds from long-term loans	-	67,721	111,475
Repayment of loans	(153,500)	(182,362)	(43,989)
Proceeds from issuances of convertible senior notes	300,000	-	-
Redemption of convertible senior notes	-	(394,300)	-
Repurchase of ordinary shares	-	(136,615)	-
Payment of issuance costs for convertible senior notes	-	-	-
Payment of loan origination costs	(15)	-	(302)
Payment of dividends	(82,751)	-	-
Changes in restricted cash	95,078	(118,281)	(37,959)
Net cash generated from (used in) financing activities	587,471	(465,615)	34,010
Exchange rate effect on cash and cash equivalents	(17,562)	(19,072)	15,361
Net (decrease) increase in cash and cash equivalents	463,161	(481,393)	(108,252)
Cash and cash equivalents at beginning of year	354,760	817,921	336,528
Cash and cash equivalents at end of year	817,921	336,528	228,276
Supplemental schedule of cash flow information:			
Income tax paid	6,674	6,664	7,979
Interest paid	13,245	19,418	16,895
Acquisition of property and equipment through utilization of deposits	90,713	14,345	244,568
Acquisition of property and equipment included in accrued expenses and other liabilities	-	-	6,121
Long-term investments received in settlement of funds receivable	-	13,947	12,058

FANG HOLDINGS LIMITED
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(Amounts in thousands of United States Dollars ("US\$"), except for number of shares and per share data)

Total Fang Holdings Limited's Equity													
	Number of Ordinary Shares			Accumulated Other Comprehensive Income							Retained Earnings	Noncontrolling Interests	Total Equity
	Class A	Class B	Ordinary Shares	Additional Paid-in Capital	Foreign currency translation adjustments	Unrealized gain on available-for-sale securities	Intra-entity foreign currency transaction loss	Total					
Balance as of December 31, 2014	58,364,924	24,336,650	10,619	101,072	39,058	10,508	-	49,566	471,352	80	632,689		
Net loss for the year	-	-	-	-	-	-	-	-	(15,096)	(37)	(15,133)		
Other comprehensive loss:													
Foreign currency translation adjustments	-	-	-	-	(55,928)	-	-	(55,928)	-	-	(55,928)		
Unrealized loss on available-for-sale security	-	-	-	-	-	(4,002)	-	(4,002)	-	-	(4,002)		
Contribution by noncontrolling interests	-	-	-	-	-	-	-	-	-	718	718		
Contribution from shareholder (Note 18(b))	-	-	-	169	-	-	-	-	-	-	169		
Issuance of Class A ordinary shares (Note 15)	11,855,384	-	1,548	345,227	-	-	-	-	-	-	346,775		
Beneficial conversion feature on convertible senior notes (Note 14)				12,113							12,113		
Share-based compensation	-	-	-	4,497	-	-	-	-	-	-	4,497		
Exercise of share options	516,371	-	67	5,871	-	-	-	-	-	-	5,938		
Excess tax benefits	-	-	-	9,442	-	-	-	-	-	-	9,442		
Dividends declared (US\$1.00 per Class A and Class B ordinary share; US\$58,414 and US\$24,337 to Class A and Class B ordinary shareholders, respectively)	-	-	-	-	-	-	-	-	(82,751)	-	(82,751)		
Balance as of December 31, 2015	<u>70,736,679</u>	<u>24,336,650</u>	<u>12,234</u>	<u>478,391</u>	<u>(16,870)</u>	<u>6,506</u>	<u>-</u>	<u>(10,364)</u>	<u>373,505</u>	<u>761</u>	<u>854,527</u>		

FANG HOLDINGS LIMITED
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (continued)
(Amounts in thousands of United States Dollars ("US\$"), except for number of shares and per share data)

Total Fang Holdings Limited's Equity

	Number of Ordinary Shares		Accumulated Other Comprehensive Income (Loss)									
	Class A	Class B	Ordinary Shares	Additional Paid-in Capital	Treasury stock	Foreign currency translation adjustments	Unrealized gain on available-for-sale securities	Intra-entity foreign currency transaction loss	Total	Retained Earnings	Noncontrolling Interests	Total Equity
Balance as of December 31, 2015	70,736,679	24,336,650	12,234	478,391	-	(16,870)	6,506	-	(10,364)	373,505	761	854,527
Net loss for the year	-	-	-	-	-	-	-	-	-	(169,635)	-	(169,635)
Other comprehensive loss:												
Foreign currency translation adjustments	-	-	-	-	-	(60,732)	-	-	(60,732)	-	-	(60,732)
Unrealized gain on available-for-sale securities	-	-	-	-	-	-	7,326	-	7,326	-	-	7,326
Foreign currency transaction losses	-	-	-	-	-	-	-	(6,996)	(6,996)	-	-	(6,996)
Amounts reclassified from accumulated other comprehensive income	-	-	-	-	-	-	(10,583)	-	(10,583)	-	-	(10,583)
Contribution by noncontrolling interests	-	-	-	-	-	-	-	-	-	-	(66)	(66)
Contribution from shareholder (Note 18(b))	-	-	-	154	-	-	-	-	-	-	-	154
Repurchase of treasury stock	(7,065,058)	-	-	-	(136,615)	-	-	-	-	-	-	(136,615)
Share-based compensation	-	-	-	6,552	-	-	-	-	-	-	-	6,552
Excess tax benefits	-	-	-	470	-	-	-	-	-	-	-	470
Exercise of share options	341,137	-	47	3,376	-	-	-	-	-	-	-	3,423
Balance as of December 31, 2016	<u>64,012,758</u>	<u>24,336,650</u>	<u>12,281</u>	<u>488,943</u>	<u>(136,615)</u>	<u>(77,602)</u>	<u>3,249</u>	<u>(6,996)</u>	<u>(81,349)</u>	<u>203,870</u>	<u>695</u>	<u>487,825</u>

FANG HOLDINGS LIMITED
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (continued)
(Amounts in thousands of United States Dollars ("US\$"), except for number of shares and per share data)

	Total Fang Holdings Limited's Equity											
	Number of Ordinary Shares			Accumulated Other Comprehensive Income (Loss)								
	Class A	Class B	Ordinary Shares	Additional Paid-in Capital	Treasury stock	Foreign currency translation adjustments	Unrealized gain on available-for-sale securities	Intra-entity foreign currency transaction loss	Total	Retained Earnings	Noncontrolling Interests	Total Equity
Balance as of December 31, 2016	64,012,758	24,336,650	12,281	488,943	(136,615)	(77,602)	3,249	(6,996)	(81,349)	203,870	695	487,825
Net profit for the year	-	-	-	-	-	-	-	-	-	21,704	-	21,704
Other comprehensive loss:												
Foreign currency translation adjustments	-	-	-	-	-	56,571	-	-	56,571	-	-	56,571
Unrealized gain on available-for-sale securities	-	-	-	-	-	-	163,272	-	163,272	-	-	163,272
Foreign currency transaction gain	-	-	-	-	-	-	-	1,872	1,872	-	-	1,872
Amounts reclassified from accumulated other comprehensive income	-	-	-	-	-	-	(2,736)	-	(2,736)	-	-	(2,736)
Contribution by noncontrolling interests	-	-	-	-	-	-	-	-	-	-	(3)	(3)
Contribution from shareholder (Note 18(b))	-	-	-	159	-	-	-	-	-	-	-	159
Share-based compensation	-	-	-	7,218	-	-	-	-	-	-	-	7,218
Exercise of share options	347,304	-	47	4,346	-	-	-	-	-	-	-	4,393
Balance as of December 31, 2017	<u>64,360,062</u>	<u>24,336,650</u>	<u>12,328</u>	<u>500,666</u>	<u>(136,615)</u>	<u>(21,031)</u>	<u>163,785</u>	<u>(5,124)</u>	<u>137,630</u>	<u>225,574</u>	<u>692</u>	<u>740,275</u>

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

FANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands of United States Dollars (“US\$”), except for number of shares and per share data)

1. ORGANIZATION AND BASIS OF PRESENTATION

The Company was incorporated on June 18, 1999 as Fly High Holdings Limited under the laws of the British Virgin Islands (“BVI”). In June 2004, the Company changed its name to SouFun Holdings Limited and its corporate domicile to the Cayman Islands and became a Cayman Islands company with limited liability under the Companies Law of the Cayman Islands. In 2016, the Company changed its name to Fang Holdings Limited (formerly known as SouFun Holdings Limited). The accompanying consolidated financial statements include the financial statements of (i) Fang Holdings Limited (the “Company”), (ii) its subsidiaries located outside of the People’s Republic of China (the “PRC”) (the “non-PRC subsidiaries”), (iii) wholly foreign owned entities in the PRC (the “WOFEs”) and their subsidiaries, (iv) entities controlled through contractual arrangements (the “PRC Domestic Entities”) and (v) the PRC Domestic Entities’ subsidiaries. The Company, and where appropriate, the term “Company” also refers to its non-PRC subsidiaries, WOFEs, PRC Domestic Entities and the PRC Domestic Entities’ subsidiaries as a whole.

The Company is principally engaged in the provision of E-commerce services, marketing services, listing services, financial services and other value-added services to the real estate and home furnishing industries in the PRC. Details of the Company’s major subsidiaries and PRC Domestic Entities as of December 31, 2017 were as follows:

<u>Company</u>	<u>Date of Establishment</u>	<u>Place of Establishment</u>	<u>Principal Activities</u>
Beijing SouFun Internet Information Service Co., Ltd. (“Beijing Internet”)	December 17, 2003	PRC	Provision of marketing services and listing services
SouFun Media Technology (Beijing) Co., Ltd. (“SouFun Media”)	November 28, 2002	PRC	Provision of technology and information consultancy services
Beijing SouFun Network Technology Co., Ltd. (“SouFun Network”)	March 16, 2006	PRC	Provision of technology and information consultancy services
Beijing SouFun Science and Technology Development Co., Ltd. (“Beijing Technology”)	March 14, 2006	PRC	Provision of marketing services and listing services
Beijing Century Jia Tian Xia Technology Development Co., Ltd. (“Beijing JTX Technology”)	December 21, 2006	PRC	Provision of marketing services and listing services
Beijing Zhong Zhi Shi Zheng Information Technology Co. Ltd., (“Beijing Zhongzhi”)	June 5, 2007	PRC	Provision of technology and information consultancy services
Xinjiang Zhong Zhi Shu Ju Information Technology Co., Ltd. (“Xinjiang Zhong Zhi Shu Ju”)	August 10, 2017	PRC	Provision of technology and information consultancy services
Beijing Hong An Tu Sheng Network Technology Co., Ltd. (“Beijing Hong An”)	January 1, 2011	PRC	Provision of technology and information consultancy services
Beijing Tuo Shi Huan Yu Network Technology Co., Ltd. (“Beijing TuoShi”)	March 1, 2011	PRC	Provision of technology and information consultancy services
Beijing Yi Ran Ju Ke Technology Development Co., Ltd. (“Beijing Yi Ran Ju Ke”)	September 10, 2011	PRC	Provision of marketing services, rental services and real estate agency services
Beijing Hua Ju Tian Xia Network Technology Co., Ltd. (“Beijing Hua Ju Tian Xia”)**	July 25, 2012	PRC	Provision of technology and information consultancy services

FANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands of United States Dollars (“US\$”), except for number of shares and per share data)

1. ORGANIZATION AND BASIS OF PRESENTATION (continued)

Company	Date of Establishment	Place of Establishment	Principal Activities
Beijing Li Man Wan Jia Network Technology Co., Ltd. ("Beijing Li Man Wan Jia")	July 25, 2012	PRC	Provision of technology and information consultancy services
Shanghai Jia Biao Tang Real Estate Broking Co., Ltd. ("Shanghai JBT Real Estate Broking")	July 7, 2005	PRC	Provision of real estate agency services, marketing services and listing services
Beijing Zhong Zhi Xun Bo Information Technology Co. Ltd., ("Zhongzhi Xun Bo")	January 6, 2012	PRC	Provision of technology and information consultancy services
Tianjin SouFun Network Technology Co., Ltd. ("Tianjin SouFun Network")	March 1, 2012	PRC	Provision of technology and information consultancy services
Hangzhou SouFun Network Technology Co., Ltd., ("Hangzhou SouFun Network")	August 27, 2013	PRC	Provision of technology and information consultancy services
Wuhan SouFun Yi Ran Ju Ke Real Estate Agents Co., Ltd. ("Wuhan Yi Ran Ju Ke")	December 13, 2013	PRC	Provision of real estate agency services and real estate information services
Hanzhou Ji Ju Real Estate Agents Co., Ltd. ("Hanzhou Ji Ju")	December 23, 2013	PRC	Provision of real estate agency services and real estate information services
Beijing Tianxia Dai Information service Co., Ltd. ("Tianxia Dai Information")	April 9, 2014	PRC	Provision of finance information services
Shanghai SouFun Microfinance Co.,Ltd.("Shanghai SouFun Microfinance")	January 19, 2015	PRC	Provision of Microfinance services
Beihai Tian Xia Dai Microfinance Co., Ltd.("Beihai Tian Xia Dai Microfinance")	September 12, 2014	PRC	Provision of microfinance services
Shanghai BaoAn Enterprise Co., Ltd. ("Shanghai BaoAn Enterprise")	March 31, 2013	PRC	Lease, resale and management of property
Shanghai BaoAn Hotel Co., Ltd. ("Shanghai BaoAn Hotel")	March 31, 2013	PRC	Operation and management of hotel, restaurant and other catering business

FANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands of United States Dollars (“US\$”), except for number of shares and per share data)

1. ORGANIZATION AND BASIS OF PRESENTATION (continued)

Company	Date of Establishment	Place of Establishment	Principal Activities
Beijing Fang Tian Xia Decorative Engineering Co., Ltd. ("Beijing Fang Tian Xia Decorative Engineering")	October 15, 2014	PRC	Provision of decorative engineering services
Chongqing Tian Xia Dai Microfinance Co., Ltd ("Chongqing Tian Xia Dai Microfinance")	December 11, 2014	PRC	Provision of microfinance services
Tianjin Jia Tian Xia Microfinance Co., Ltd. ("Tianjin Jia Tian Xia Microfinance")	December 5, 2014	PRC	Provision of microfinance services
Beijing Fang Chao Real Estate Broking Co., Ltd.	March 6, 2015	PRC	Provision of real estate agency services
Guangzhou Fang Tian Xia Real Estate Broking Co., Ltd.	March 9, 2015	PRC	Provision of real estate agency services
Beijing Cun Fang Real Estate Broking Co., Ltd.	April 7, 2015	PRC	Provision of real estate agency services
Shenzhen Fang Tian Xia Broking Co., Ltd.	April 13, 2015	PRC	Provision of real estate agency services
Tianjin Fang Tian Xia Real Estate Broking Co., Ltd.	May 21, 2015	PRC	Provision of real estate agency services
Nanjing Cun Fang Real Estate Broking Co., Ltd.	April 30, 2015	PRC	Provision of real estate agency services

FANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands of United States Dollars (“US\$”), except for number of shares and per share data)

1. ORGANIZATION AND BASIS OF PRESENTATION (continued)

<u>Company</u>	<u>Date of Establishment</u>	<u>Place of Establishment</u>	<u>Principal Activities</u>
Nanchang Cun Fang Real Estate Broking Co., Ltd.	June 3, 2015	PRC	Provision of real estate agency services
Chongqing Fang Tian Xia Real Estate Broking Co., Ltd.	May 27, 2015	PRC	Provision of real estate agency services
Shanghai SouFun Fang Tian Xia Broking Co., Ltd.	April 16, 2015	PRC	Provision of real estate agency services
Beijing Li Tian Rong Ze Yi Jia Technology Development Co., Ltd.	September 16, 2015	PRC	Provision of technology and information consultancy services
Fang Holdings Limited	August 7, 2000	Hong Kong	Investment holding
Hong Kong Property Network Limited ("HK Property")	May 19, 2011	Hong Kong	Investment holding
Best Fang Holdings LLC	Aug 30, 2017	United States of America	Investment holding
Best Work Holdings (New York) LLC ("Best Work")	March 14, 2011	United States of America	Investment holding

FANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands of United States Dollars (“US\$”), except for number of shares and per share data)

1. ORGANIZATION AND BASIS OF PRESENTATION (continued)

Historically, in order to comply with PRC laws and regulations which restrict foreign control of companies involved in internet content provision (“ICP”) and advertising businesses, the Company operates its websites and provides online marketing advertising services in the PRC through its PRC Domestic Entities and the PRC Domestic Entities’ subsidiaries.

The equity interests of the PRC Domestic Entities are legally held directly by Vincent Tianquan Mo, executive chairman of the board of directors and chief executive officer, and Richard Jiangong Dai, a director of the board who resigned from the board effective February 25, 2016. The effective control of the PRC Domestic Entities is held by the Company through three of its WOFEs, namely, SouFun Network, Beijing Zhongzhi and Jia Tian Xia Network Technology as a result of a series of contractual arrangements and their supplementary agreements signed with each of the PRC Domestic Entities which arrangements and agreements contain similar provisions regarding obligations and rights of the Company and the PRC Domestic Entities (hereinafter, together the “Contractual Agreements”). As a result of the Contractual Agreements, the Company maintains the ability to approve decisions made by the PRC Domestic Entities, is entitled to substantially all of the economic benefits from the PRC Domestic Entities and is obligated to absorb all of the PRC Domestic Entities’ expected losses.

Therefore, the Company consolidates the PRC Domestic Entities and the PRC Domestic Entities’ subsidiaries in accordance with the United States of America Securities and Exchange Commission (“SEC”) Regulation S-X Rule 3A-02 and Accounting Standards Codification (“ASC”) 810, “Consolidation” (“ASC 810”).

The following is a summary of the Contractual Agreements:

Exclusive Technical Consultancy and Service Agreements

The WOFEs provide the following exclusive technical services to the PRC Domestic Entities: (i) access to information assembled by the WOFEs concerning the real estate industry and companies in this sector to enable the PRC Domestic Entities to target potential customers and provide research services; and (ii) technical information technology system support to enable the PRC Domestic Entities to service the needs of its customers. The agreements are effective for 10 years and can be extended indefinitely at the sole discretion of the WOFEs.

Operating Agreements

Pursuant to the operating agreements, each PRC Domestic Entity and its legal shareholders have agreed not to enter into any transaction that would substantially affect the assets, rights, obligations or operations of the PRC Domestic Entity without prior written consent from the WOFEs. In addition, the PRC Domestic Entities will appoint or remove their directors and executive officers based on instruction from the WOFEs. The agreements are effective for 10 years and can be extended indefinitely at the sole discretion of the WOFEs.

Equity Pledge Agreements, Shareholders Proxy Agreements and Exclusive Call Option Agreements

In order to secure the payment obligations of each PRC Domestic Entity under the exclusive technical consultancy and service agreements, the legal shareholders have pledged their entire respective ownership interests in each Domestic PRC Entity to the WOFEs. The legal shareholders shall not transfer the pledged ownership interests without the prior written consent from the WOFEs. The WOFEs are entitled to dividends and funds obtained through conversion, auction or sale of the ownership interests that the legal shareholders pledged to the WOFEs. The agreements are effective for 10 years and can be extended at the sole discretion of the WOFEs.

The legal shareholders irrevocably appoint the WOFEs to act as proxy for the legal shareholders to exercise their respective rights as shareholders of the PRC Domestic Entities to attend shareholders’ meetings and cast votes. The agreements will remain valid until terminated upon written consent by the WOFEs, the PRC Domestic Entities and their legal shareholders or by their successors.

FANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands of United States Dollars (“US\$”), except for number of shares and per share data)

1. ORGANIZATION AND BASIS OF PRESENTATION (continued)

The Company or any third party designated by the Company has the exclusive right to acquire from the legal shareholders the whole or part of the respective equity interests in each PRC Domestic Entity at a price equivalent to the historical cost when permitted by applicable PRC laws and regulations. The legal shareholders shall not sell, transfer or dispose of the equity interests in the PRC Domestic Entities without the prior written consent of the Company or any third party designated by the Company. The proceeds from the exercise of the call option will be applied to repay the loans under the loan agreements. The Company does not have to make any additional payment to the legal shareholders. The PRC Domestic Entities will not distribute any dividend without the prior written consent from the WOFEs. The agreements have a term of 10 years and can be extended indefinitely at the sole discretion of the Company.

Loan Agreements

The WOFEs provided loans to the legal shareholders to enable them to contribute the registered capital of the PRC Domestic Entities. Under the terms of the loan agreements, the legal shareholders will repay the loans by transferring their legal ownership in the PRC Domestic Entities to the WOFEs when permitted by applicable PRC laws and regulations. Any gains from the transfer shall be paid back to the WOFEs or any third party designated by the WOFEs. The repayment term of the loans was not stated in the agreements. The legal shareholders are liable to repay their respective portions of the loans by transferring their entire respective equity interests in the PRC Domestic Entities upon the written request of the WOFEs when such legal shareholders terminate their employment with the WOFEs.

Supplementary Agreements

In addition to the above contractual agreements, the Company, the WOFEs, the PRC Domestic Entities and their legal shareholders entered into supplementary agreements in March 2010 to memorialize certain terms previously agreed amongst the Company, the WOFEs, the PRC Domestic Entities and their legal shareholders. While these supplementary agreements were signed in 2010, the terms, intent and substance of all the agreements above remained unchanged. Pursuant to the supplementary agreements:

- the WOFEs have unilateral discretion in setting the technical service fees charged to the PRC Domestic Entities;
- the WOFEs are obligated to provide financial support to the PRC Domestic Entities in the event the PRC Domestic Entities incur losses;
- the annual budget of the PRC Domestic Entities should be assessed and approved by the WOFEs;
- the legal shareholders agree to remit any profits distributed from the PRC Domestic Entities to the Company upon request by the Company; and
- the PRC Domestic Entities are obligated to transfer their entire retained earnings, after deduction of PRC income tax, to the WOFEs in the form of a donation upon the WOFEs' request.

All of these provisions have been incorporated into the Contractual Agreements signed subsequent to March 2010.

Furthermore, the WOFEs and the PRC Domestic Entities entered into supplementary agreements in March 2013 to memorialize the following terms previously agreed between the WOFEs and the PRC Domestic Entities when the Exclusive Call Option Agreements were entered into:

- the legal shareholders agreed to remit the purchase consideration received from the exercise of the exclusive right to acquire the equity interests in the PRC Domestic Entities to the WOFEs or any entity designated by the WOFEs.

This provision has been incorporated into the Contractual Agreements signed subsequent to March 2013.

FANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands of United States Dollars (“US\$”), except for number of shares and per share data)

1. ORGANIZATION AND BASIS OF PRESENTATION (continued)

Through the design of the aforementioned agreements, the legal shareholders of the PRC Domestic Entities effectively assigned their full voting rights to the WOFEs, which give the WOFEs the power to direct the activities that most significantly impact the PRC Domestic Entities’ economic performance. The WOFEs obtained the ability to approve decisions made by the PRC Domestic Entities and the ability to acquire the equity interests in the PRC Domestic Entities when permitted by PRC law. The WOFEs are obligated to absorb a majority of the expected losses from the PRC Domestic Entities’ activities through providing unlimited financial support to the PRC Domestic Entities and are entitled to receive a majority of profits from the PRC Domestic Entities through the exclusive technical consultancy and service fees. As a result, the Company has determined that the WOFEs are the primary beneficiaries of the PRC Domestic Entities. Accordingly, in accordance with SEC Regulation S-X Rule 3A-02 and ASC 810, the Company, through the WOFEs, has consolidated the operating results of the PRC Domestic Entities in the Company’s financial statements. Business taxes (“BT”) and value added taxes (“VAT”) relating to service fees charged by the WOFEs are recorded as cost of services.

The carrying amounts of the assets, liabilities, the results of operations and cash flows of the PRC Domestic Entities and the PRC Domestic Entities’ subsidiaries included in the Company’s consolidated balance sheets, statements of comprehensive income (loss) and statements of cash flows were as follows:

	As of December 31,	
	2016	2017
	US\$	US\$
ASSETS		
Current assets:		
Cash and cash equivalents	18,352	50,948
Restricted cash, current	209,642	223,002
Short-term investments	2,595	19,838
Accounts receivable (net of allowance of US\$19,013 and US\$13,691 as of December 31, 2016 and 2017, respectively)	74,624	22,119
Funds receivable (net of allowance of US\$2,322 and nil as of December 31, 2016 and 2017, respectively)	886	2,824
Commitment deposits (net of allowance of nil and US\$206 as of December 31, 2016 and 2017, respectively)	6,527	5,876
Prepayments and other current assets	16,290	16,856
Total current assets	328,916	341,463
Non-current assets:		
Property and equipment, net	34,452	275,601
Long-term investments	216,913	433,894
Deferred tax assets, non-current	270	2
Deposit for non-current assets	224,529	41,428
Other non-current assets	633	204
Land use right	-	34,951
Total non-current assets	476,797	786,080
Total assets	805,713	1,127,543

FANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands of United States Dollars (“US\$”), except for number of shares and per share data)

1. ORGANIZATION AND BASIS OF PRESENTATION (continued)

	As of December 31,	
	2016	2017
	US\$	US\$
Current liabilities:		
Short-term loans	22,734	59,820
Deferred revenue	21,744	27,095
Accrued expenses and other liabilities	106,459	54,516
Customer’s refundable fees	18,295	10,986
Income tax payable	199	1,325
Intercompany payable to the non PRC Domestic Entities	356,423	431,770
Total current liabilities	<u>525,854</u>	<u>585,512</u>
Non-current liabilities:		
Long-term loans	65,190	55,958
Other non-current liabilities	-	37,936
Deferred tax liabilities, non-current	-	51,227
Total non-current liabilities	<u>65,190</u>	<u>145,121</u>
Total liabilities	<u>591,044</u>	<u>730,633</u>
Net assets	<u>214,669</u>	<u>396,910</u>

	For the Years Ended December 31,		
	2015	2016	2017
	US\$	US\$	US\$
Total revenues	315,797	287,475	91,807
Net loss	(41,831)	(24,135)	(6,484)

	For the Years Ended December 31,		
	2015	2016	2017
	US\$	US\$	US\$
Net cash generated from (used in) operating activities	(61,480)	(790)	122,327
Net cash used in investing activities	(8,913)	(3,763)	(99,946)
Net cash generated from (used in) financing activities	95,078	(25,963)	8,142

The PRC Domestic Entities had no intercompany amounts payable to the WOFEs for accrued service fees as of December 31, 2016 and 2017. The WOFEs did not charge the PRC Domestic Entities, technology consultancy service fees during the years ended December 31, 2015, 2016 and 2017.

As of December 31, 2017, except for the current restricted cash of US\$223,002, deposit for non-current assets of US\$41,107 and property and equipment of US\$242,377 pledged to secure bank borrowings of the Company (Note 11), there was no other pledge or collateralization of the assets of the PRC Domestic Entities and the PRC Domestic Entities’ subsidiaries.

FANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands of United States Dollars (“US\$”), except for number of shares and per share data)

1. ORGANIZATION AND BASIS OF PRESENTATION (continued)

Creditors of the PRC Domestic Entities and the PRC Domestic Entities’ subsidiaries have no recourse to the general credit of their respective primary beneficiary. The amounts of liabilities of the PRC Domestic Entities and the PRC Domestic Entities’ subsidiaries have been parenthetically presented on the consolidated balance sheets. The PRC Domestic Entities held certain registered copyrights, trademarks and registered domain names, which are used for the Company’s business operations. All of these revenue-producing assets were internally developed, for which the Company did not incur significant development costs. There were no other assets of the PRC Domestic Entities and the PRC Domestic Entities’ subsidiaries that can only be used to settle their own obligations except for deposit for non-current assets of US\$41,107 and property and equipment of US\$242,377. The WOFEs have not provided any financial support that they were not previously contractually required to provide to the PRC Domestic Entities and the PRC Domestic Entities’ subsidiaries during the years presented.

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with the United States generally accepted accounting principles (“U.S. GAAP”).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the balance sheet dates and the reported amounts of revenues and expenses during the reporting periods. Significant estimates and assumptions reflected in the Company’s financial statements include, but are not limited to, customer refunds, allowance for doubtful accounts, allowance for credit losses, useful lives of property and equipment, realization of deferred tax assets, impairment of long-lived assets, share-based compensation expense, uncertain income tax positions, fair value of the embedded derivatives in the convertible senior notes issued, and fair value of long term investments and trading securities. Changes in facts and circumstances may result in revised estimates. Actual results could materially differ from those estimates.

Principles of Consolidation

The consolidated financial statements include the financial statements of the Company, its non-PRC subsidiaries, WOFEs, the PRC Domestic Entities in which the Company, through its WOFEs, has a controlling financial interest, and the PRC Domestic Entities’ subsidiaries. The Company has determined that it has a controlling financial interest, even though it does not hold a majority of the voting equity interest in an entity, because the Company has the ability to control the PRC Domestic Entities through the WOFEs’ rights to all the residual benefits of the PRC Domestic Entities and the WOFEs’ obligation to fund losses of the PRC Domestic Entities. As a result, the PRC Domestic Entities are included in the consolidated financial statements. All significant intercompany balances and transactions between the Company, its subsidiaries, the PRC Domestic Entities and the PRC Domestic Entities’ subsidiaries have been eliminated in consolidation.

FANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands of United States Dollars (“US\$”), except for number of shares and per share data)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign Currency Translation and Transactions

The functional currency of the Company and its non-PRC subsidiaries is the United States dollars (“US\$”). The WOFEs, PRC Domestic Entities and PRC Domestic Entities’ subsidiaries determine their functional currency to be the Chinese Renminbi (“RMB”) based on the criteria of ASC 830, “Foreign Currency Matters”. The Company uses US\$ as its reporting currency. The Company uses the monthly average exchange rate for the year and the exchange rate at the balance sheet date to translate the operating results and financial position, respectively. Translation differences are recorded in accumulated other comprehensive income (loss), a component of shareholders’ equity.

Transactions denominated in foreign currencies are remeasured into the functional currency at the exchange rates prevailing on the transaction dates. Foreign currency denominated financial assets and liabilities are remeasured at the exchange rates prevailing at the balance sheet date. Exchange gains and losses are included in the consolidated statements of comprehensive income (loss).

The assets and liabilities of the Company’s PRC subsidiaries, PRC Domestic Entities and PRC Domestic Entities’ subsidiaries are translated into US\$ at the exchange rates prevailing at the balance sheet date. The consolidated statements of comprehensive income (loss) of these entities are translated into US\$ at the weighted average exchange rates for the year. The resulting translation gains (losses) are recorded in accumulated other comprehensive income (loss) as a component of shareholders’ equity.

For the purpose of the consolidated statements of cash flows, cash flows of the Company’s PRC subsidiaries, PRC Domestic Entities and PRC Domestic Entities’ subsidiaries are translated into US\$ at the exchange rates prevailing on the dates of the cash flows. Frequently recurring cash flows of these entities which arise throughout the year are translated into US\$ at the weighted average exchange rates for the year.

Transaction gains and losses are recognized in the consolidated statements of operations. Gains and losses on intra-entity foreign currency transactions that are of a long-term-investment nature (that is, settlement is not planned or anticipated in the foreseeable future) between consolidated entities are not recognized in earnings, but are included as a component of other comprehensive income.

Cash and Cash Equivalents

Cash and cash equivalents represent cash on hand and demand deposits placed with banks or other financial institutions with original maturity of 90 days or less at the date of purchase which are unrestricted as to withdrawal and use. In addition, all highly liquid investments with original stated maturity of 90 days or less are classified as cash equivalents.

Restricted Cash

Restricted cash represents cash pledged to financial institutions as collateral for the Company’s bank loans. The restricted cash is not available for withdrawal or the Company’s general use until after the corresponding bank loans are repaid.

FANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands of United States Dollars (“US\$”), except for number of shares and per share data)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments

All highly liquid investments with original maturities of greater than 90 days but less than 365 days are classified as short-term investments which are stated at their approximate fair value.

The Company accounts for its investments in accordance with ASC 320, “Investments-Debt and Equity Securities” (“ASC 320”). The Company classifies the investments in debt and equity securities as “held-to-maturity”, “trading” or “available-for-sale”, whose classification determines the respective accounting methods stipulated by ASC 320. Dividend and interest income, including amortization of the premium and discount arising at acquisition, for all categories of investments in securities are included in earnings. Any realized gains or losses on the sale of the investments are determined on a specific identification method, and such gains and losses are reflected in the consolidated statements of comprehensive income (loss).

The securities that the Company has positive intent and ability to hold to maturity are classified as held-to-maturity securities and stated at amortized cost. For individual securities classified as held-to-maturity securities, the Company evaluates whether a decline in fair value below the amortized cost basis is other-than-temporary in accordance with the Company’s policy and ASC 320. If the Company concludes that it does not intend or is not required to sell an impaired debt security before the recovery of its amortized cost basis, the impairment is considered temporary and the held-to-maturity securities continue to be recognized at the amortized costs. When the Company intends to sell an impaired debt security or it is more likely than not that it will be required to sell prior to recovery of its amortized cost basis, an other-than-temporary impairment is deemed to have occurred. In these instances, the other-than-temporary impairment loss is recognized in the consolidated statements of comprehensive income (loss) equal to the entire excess of the debt security’s amortized cost basis over its fair value at the balance sheet date of the reporting period for which the assessment is made.

The securities that are bought and held principally for the purpose of selling them in the near term are classified as trading securities. Unrealized holding gains and losses for trading securities are included in earnings.

Investments not classified as trading or as held-to-maturity are classified as available-for-sale securities. Available-for-sale securities are reported at fair value, with unrealized gains and losses recorded in accumulated other comprehensive income (loss) in shareholders’ equity. Realized gains or losses are charged to earnings during the period in which the gain or loss is realized. An impairment loss on the available-for-sale securities are recognized in the consolidated statements of comprehensive income (loss) when the decline in value is determined to be other-than-temporary. No impairment loss was recognized for the year ended December 31, 2017.

In accordance with ASC 325 “Investments-Other”, for investments in an investee over which the Company does not have significant influence and which do not have readily determinable fair value, the Company carries the investment at cost and only adjusts for other-than-temporary declines in fair value and distributions of earnings that exceed the Company’s share of earnings since its investment. Management regularly evaluates the impairment of the cost method investments based on performance and financial position of the investee as well as other evidence of market value. Such evaluation includes, but is not limited to, reviewing the investee’s cash position, recent financing, projected and historical financial performance, cash flow forecasts and financing needs. An impairment loss is recognized in earnings equal to the excess of the investment’s cost over its fair value at the balance sheet date of the reporting period for which the assessment is made. The fair value would then become the new cost basis of investment. An impairment loss of nil, US\$2,232 and US\$2,768 was recognized for the years ended December 31, 2015, 2016 and 2017, respectively.

Accounts Receivable and Allowance for Doubtful Accounts

The Company reviews the accounts receivable on a periodic basis and makes general and specific allowances when there is doubt as to the collectability of individual balances.

The Company considers many factors in assessing the collectability of its receivables, such as the age of the amounts due, the customer’s payment history and credit-worthiness. An allowance for doubtful accounts is recorded in the period in which a loss is determined to be probable. Accounts receivable balances are written off after all collection efforts have been exhausted.

FANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands of United States Dollars (“US\$”), except for number of shares and per share data)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Funds Receivable

Funds receivable represents cash payment and collection through third-party payment service providers. The Company carefully considers and monitors the credit worthiness of the third-party payment service providers used.

An allowance for doubtful accounts is recorded in the period in which a loss is determined to be probable. Funds receivable balances are written off after all collection efforts have been exhausted. US\$2,322 and nil allowance for doubtful accounts was provided for the funds receivable as of December 31, 2016 and 2017, respectively.

Commitment deposits

Commitment deposits represent cash paid to real estate developers for the right to provide sales agency services for their real estate projects. The commitment deposits are refundable at specified dates and are classified accordingly.

In accordance with relevant contract terms, in the event of default, the Company is normally entitled to collateral or other forms of security from the real estate developers, which it can then resell to recover its original commitment deposit. The Company’s recovery of its original commitment deposit is dependent on market conditions.

The Company considers many factors in assessing the collectability of commitment deposits, such as the age of the amounts due, the market value of collaterals, as well as the real estate developer’s payment history and credit-worthiness. An allowance for doubtful accounts is recorded in the period in which a loss is determined to be probable. Commitment deposits are written off after all collection efforts have been exhausted.

FANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands of United States Dollars (“US\$”), except for number of shares and per share data)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Loans receivable

Loans receivable consists primarily of secured loans in the form of mortgage loans and unsecured loans to borrowers that have passed the Company's credit assessment. Such amounts are recorded at the principal amount less impairment as of the balance sheet date. The loan periods extended by the Company to the borrowers generally range from 1 to 36 months.

An allowance for credit loss is recorded when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. The Company assesses the allowance for credit loss related to loans receivable on a quarterly basis, either on an individual or collective basis. The Company considers various factors in evaluating loans receivable for possible impairment on an individual basis. These factors include the amount of the loan, historical experience, value of collateral, if any, credit quality and age of the receivables balances. Impairment is measured on an individual loan basis using either the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral if the loan is secured. The Company evaluates the remainder of its loans receivables portfolio for impairment on a collective basis in accordance with ASC 450-20, Loss Contingencies and records an allowance for credit loss at the portfolio segment level.

Loan principal and interest receivables are charged-off when the loan principal and interest receivables are deemed to be uncollectible. In general, loan principal and interest receivables are identified as uncollectible if any of the following conditions are met : 1) the borrower is dead, missing or incapacitate and there is no legal heir and presentee or the legal heir and presentee refuse to abide the contract; 2) identification of fraud, and the fraud is officially reported to and filed with relevant law enforcement departments; 3) outstanding amount following 180 days past due after all collection efforts based on management's judgment.

In 2015, the Company entered into arrangements with third-party investors under which the Company sold its economic benefits in certain mortgage and unsecured loans receivable in exchange for cash, which is equivalent to the book value of such loans receivable. Sales of mortgage and unsecured loans receivable to investors are accounted for in accordance with ASC 860 “Transfers and Servicing” (“ASC 860”). The Company does not recognize any gain or loss from the sale of mortgage and unsecured loans receivable. The Company derecognizes the mortgage and unsecured loans receivable if (i) the mortgage and unsecured loans have been legally isolated from the Company; (ii) there are no constraints on investors to pledge or exchange the mortgage and unsecured loans; and (iii) the Company does not maintain effective control over the mortgage and unsecured loans. From June 2016, the Company stopped entering into these arrangements with third-party investors. The derecognized amount of loans receivable in which the Company retains continuing involvement as of December 31, 2015, 2016 and 2017 were US\$37.87 million, nil and nil.

FANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands of United States Dollars (“US\$”), except for number of shares and per share data)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and Equipment, Net

Property and equipment are stated at cost and are depreciated using the straight-line method over the estimated useful lives of the assets, as follows:

<u>Category</u>	<u>Estimated Useful Life</u>
Office equipment	5 years
Motor vehicles	5 years
Leasehold improvement	shorter of lease term or economic lives
Buildings	12 -38 years

Land is stated at cost and is not depreciated.

Construction in progress represents buildings and related premises under construction, which is stated at actual construction cost less any impairment loss. Construction in progress is transferred to the respective category of property and equipment when completed and ready for its intended use.

Interest associated with major development and construction projects is capitalized and included in the cost of the project. The capitalization of interest cease when the project is substantially completed or the development activity is suspended for more than a brief period. The amount to be capitalized is determined by applying the capitalization rate to the average amount of accumulated qualifying capital expenditures for assets under construction during the year.

Repair and maintenance costs are charged to expense as incurred, whereas the cost of renewals and betterments that extend the useful lives of property and equipment are capitalized as additions to the related assets. Retirements, sales and disposals of assets are recorded by removing the cost and accumulated depreciation from the asset and accumulated depreciation accounts, respectively, with any resulting gain or loss reflected in the consolidated statements of comprehensive income (loss).

Prepaid land lease payments under operating lease are initially stated at cost and subsequently recognized on the straight-line basis over the lease terms.

When the lease payments cannot be allocated reliably between the land and the buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

Land Use Rights

Land use rights are recorded at cost less accumulated amortization. Amortization is provided on a straight-line basis over the estimated terms of the land use rights which are 40 -50 years.

Impairment of Long-Lived Assets

The Company evaluates its long-lived assets or asset Company with finite lives for impairment whenever events or changes in circumstances, such as a significant adverse change to market conditions that will impact the future use of the assets, indicate that the carrying amount of an asset Company may not be fully recoverable. When these events occur, the Company evaluates the impairment by comparing the carrying amount of the assets to future undiscounted cash flows expected to result from the use of the assets and their eventual disposition. If the sum of the expected undiscounted cash flows is less than the carrying amount of the assets, the Company recognizes an impairment loss based on the excess of the carrying amount of the asset group over its fair value, but not below the fair values of the individual long-lived assets within the asset group. No impairment charge was recognized for any of the years presented. Asset groups to be disposed of would be reported at the lower of the carrying amount or fair value less costs to sell, and no longer depreciated. The assets and liabilities of a disposal group classified as held for sale would be presented separately in the appropriate asset and liability sections of the consolidated balance sheets.

Fair Value of Financial Instruments

Financial instruments of the Company primarily include cash and cash equivalents, restricted cash, accounts receivable, commitment deposits, funds receivable, investments including cost method investments, fixed-rate time deposits, trading securities, available-for-sale securities, loans receivable, short-term and long-term loans, convertible senior notes (Note 14) and related derivative liabilities. As of December 31, 2016 and 2017, the carrying values of these financial instruments, other than the cost method investment, available-for-sale securities, long-term loans, convertible senior notes and related derivative liabilities, approximated their fair values due to the short-term maturity of these instruments. The available-for-sale securities and trading securities were recorded at fair value based on the quoted price in active markets as of December 31, 2016 and 2017. The carrying values of the long-term loans approximate their fair values, as the loans bear interest at rates determined based on the prevailing interest rates in the market. The convertible senior notes were recognized based on residual proceeds after allocation to the derivative liabilities at fair market value. The estimated fair values of the convertible senior notes based on a market approach were approximately US\$225,186 and US\$301,036 as of December 31, 2016 and 2017, respectively, and represents a Level 3 valuation in accordance with ASC 820, “Fair Value Measurements and Disclosures” (“ASC 820”). When determining the estimated fair value of the convertible senior notes, the Company used a commonly accepted valuation methodology and market-based risk measurements that are indirectly observable, such as credit risk. The fair value of the bifurcated derivative liabilities was insignificant for the years ended December 31, 2015, 2016 and 2017. The Company determined that it was not practicable to estimate the fair value of its cost method investments as of December 31, 2016 and 2017 and measures the cost method investment at fair value on a nonrecurring basis only if an impairment charge were to be recognized.

FANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands of United States Dollars (“US\$”), except for number of shares and per share data)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value of Financial Instruments (continued)

The Company applies ASC 820 in measuring fair value. ASC 820 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements.

ASC 820 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

Level 1- Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2- Include other inputs that are directly or indirectly observable in the marketplace.

Level 3- Unobservable inputs which are supported by little or no market activity.

ASC 820 describes three main approaches to measuring the fair value of assets and liabilities: (1) market approach; (2) income approach and (3) cost approach. The market approach uses prices and other relevant information generated from market transactions involving identical or comparable assets or liabilities. The income approach uses valuation techniques to convert future amounts to a single present value amount. The measurement is based on the value indicated by current market expectations about those future amounts. The cost approach is based on the amount that would currently be required to replace an asset.

The Company measures its available-for-sale securities and trading securities at fair value using quoted prices from the active markets.

Assets measured at fair value on a recurring basis as of December 31, 2016 and 2017 are summarized below.

	Fair Value Measurement as of December 31, 2016			
	Quoted Prices in Active Markets for Identical Assets (Level 1) US\$	Significant Other Observable Inputs (Level 2) US\$	Unobservable Inputs (Level 3) US\$	Fair Value at December 31, 2016 US\$
Available-for-sale securities	51,639	-	-	51,639

	Fair Value Measurement as of December 31, 2017			
	Quoted Prices in Active Markets for Identical Assets (Level 1) US\$	Significant Other Observable Inputs (Level 2) US\$	Unobservable Inputs (Level 3) US\$	Fair Value at December 31, 2017 US\$
Available-for-sale securities	52,283	318,065	-	370,348
Trading securities	15,833	-	-	15,833

FANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands of United States Dollars (“US\$”), except for number of shares and per share data)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Recognition

Revenues are derived from E-commerce services, marketing services, listing services, other value-added services and financial services. Revenues for each type of service sales are recognized only when the following criteria are met: (a) persuasive evidence of an arrangement exists; (b) price is fixed or determinable; (c) delivery of services has occurred; and (d) collectability is reasonably assured.

Listing Services

Listing services revenues consist of revenues derived from both basic listing services and special listing services.

The Company’s basic and special listing services are provided to agents, brokers, property developers, property owners, property managers and others seeking to sell or rent new or secondary residential and commercial properties.

(1) Basic listing services

Basic listing services entitle customers to post and make changes to information for properties, home furnishings and other related products and services in a particular area on the website and mobile apps for a specified period of time, which typically range from one to 36 months, in exchange for a fixed fee. Written contracts, containing all significant terms, signed by the Company and its customers provide persuasive evidence of the arrangement. The amount of fee to be paid is not subject to change once the contract has been signed. The contracts generally do not contain any specific performance target or refund guarantee. Delivery of services occurs by making access to the websites and mobile apps available for posting by the customers over the specified listing period. The Company performs credit assessments of its customers prior to signing the written contract to ensure collectability is reasonably assured. In accordance with ASC 605, revenues are recognized ratably over the duration of the service period as the basic listing services are being delivered.

(2) Special listing services

Special listing services consist of promotional activities associated with themed marketing campaigns, each generally over a one year duration and designed to recognize the leading companies within a specific real estate sector. For each special listing campaign, targeted leading companies participate in a collective marketing and promotional program for a specified fee, consisting of various online and offline promotional activities tied to the specialized theme of the campaign. Each revenue arrangement may include one or multiple special listing campaigns.

The Company evaluates its special listing revenue arrangements in accordance with ASC 605-25, “Revenue recognition—Multiple-element arrangements”. The promotional services within a special listing program are accounted for as one combined unit of accounting, as each promotional deliverable does not have standalone value to the customer since all the deliverables are tied to the specialized theme of the campaign, and are not sold separately. For contractual arrangements that contain multiple special listing campaigns, the program for each campaign is accounted for as a separate unit of accounting. ASC 605-25 requires revenues to be allocated to each unit of accounting on a relative fair value basis based on a selling price hierarchy. The selling price for a deliverable is based on vendor-specific objective evidence (“VSOE”) if available, third party evidence (“TPE”) if VSOE is not available, or best estimate of selling price (“BESP”) if neither VSOE nor TPE is available. The Company allocates total arrangement consideration to each unit of accounting based on its relative selling price, which is determined based on its BESP for that deliverable since neither VSOE nor TPE exist. In determining the BESP for each deliverable, the Company considers its overall pricing model and objectives when sold separately, as well as market or competitive conditions that may impact the price at which the Company would transact if the deliverable were sold regularly on a standalone basis. We monitor the conditions that affect its determination of selling price for each deliverable and reassess such estimates periodically. In accordance with ASC 250, “Accounting Changes and Error Corrections,” changes in the determination of the BESP are considered a change in accounting estimate and are accounted for on a prospective basis. The effect of changes in the BESP on the allocation of arrangement consideration was insignificant for all periods presented.

Written contracts, containing all significant terms, signed by the Company and its customers provide persuasive evidence of the arrangement. The amount of fee to be paid is not subject to change once the contract has been signed. The contracts do not contain any specific performance, cancellation, termination or refund provisions. The Company performs credit assessments of its customers prior to signing the written contract to ensure collectability is reasonably assured. In accordance with ASC 605, “Revenue Recognition,” revenues are recognized ratably over the duration of the campaign period as the special listing services are being delivered.

FANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands of United States Dollars (“US\$”), except for number of shares and per share data)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Marketing Services

The Company offers marketing services on the Company’s websites and mobile apps, primarily through banner advertisements, floating links, logos and other media insertions. These marketing services are offered to real estate developers and to a lesser extent provider of products and services for home decoration and improvement. Marketing services allow customers to place advertisements on particular areas of the Company’s websites and mobile apps, in particular formats and over particular periods of time. Written contracts, containing all significant terms, signed by the Company and its customers provide persuasive evidence of the arrangement. The contracts generally do not contain any specific performance target or refund guarantee.

The service fee is negotiated between the customer and the Company but once a price is agreed to and the written contract is signed by both parties, the price is fixed and not subject to change. The service fee is due and payable in installments over the service period. The marketing services typically last from several days to one year. Delivery of the service occurs upon displaying the agreed forms of services on the Company’s websites and mobile apps over the specified service period. The Company performs credit assessments on its customers prior to signing the written contract to ensure collectability is reasonably assured. Revenues are recognized ratably over the contract period, as there is persuasive evidence of an arrangement, the fee is fixed or determinable and collection is reasonably assured, as prescribed by ASC 605.

Beginning in 2015, the Group began to enter into marketing service agreements with certain real estate developers, where the Company may elect to collect the contractually stated marketing service fee in the form of (i) a designated real estate property, if transferred to the Company or sold to a third-party buyer designated by the Company prior to a pre-determined date, which typically falls at the end of the marketing service period, or (ii) cash, if the Company elects not to take the designated real estate property as settlement consideration by the pre-determined date. The Company determines the contractually stated marketing service fee under the new payment arrangements with reference to the cash price of the comparable services offered by the Company under the sole cash payment arrangements. The designated real estate property is typically a specifically identified residential unit within a residential community developed by the real estate developer and its fair value is generally commensurate with the contractually stated marketing service fee as of the date of the marketing service agreement. If the Company elects settlement through the sale of the designated real estate property to a third-party buyer, the Company is entitled to retain the entire sales proceeds. In this scenario, the Company has the sole discretion in setting the sales price of the designated real estate property to the third-party buyer but has no incentive to permit such real estate property to be sold at a price lower than the contractually stated marketing service fee, which serves as a de-facto minimal selling price, because the Company would instead accept the cash payment of the stated marketing service fee. Prior to the pre-determined date, the real estate developer is obligated not to sell, encumber or otherwise dispose of the designated real estate property without the consent of the Company.

Under these arrangements, the Company initially recognizes the marketing service revenue up to the amount of the contractually stated marketing service fee. Any excess is contingent upon the sale of the designated real estate properties and is accounted for as contingent marketing service revenues, if and when the sale is consummated and all other revenue recognition criteria are met. For the years ended December 31, 2015, 2016 and 2017, the Company recognized marketing service revenue of US\$52,000, US\$9,730 and nil under such arrangement. Since 2016, the Company ceased entering into these arrangements with real estate developers and collected all the marketing service fees in the form of (i) cash, or (ii) a designated real estate property transferred to the Company, from real estate developers.

Instead, the Company began to provide marketing services whereby the sole consideration for the services is in the form of a specifically identified unit of a development. The Company accounts for these arrangements pursuant to ASC 845, Nonmonetary transactions, and have determined that the fair value of consideration received, i.e. the specifically identified real estate property, is more readily determinable than the marketing services surrendered. Accordingly, the fair value of property is used for measurement and revenues are recognized ratably over the service period. Revenue recognized under such arrangement was nil, US\$728 and US\$1,361 on the years ended December 31, 2015, 2016 and 2017.

FANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands of United States Dollars (“US\$”), except for number of shares and per share data)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Marketing Services (continued)

For certain arrangements, the Company provides marketing services that contain multiple deliverables, that is, different forms of services to be delivered over different periods of time.

The Company accounts for each deliverable in the arrangement as separate unit of accounting. Revenues are allocated to each unit of accounting on a relative fair value basis based on a selling price hierarchy and is recognized ratably over the duration of the service period. The selling price for a deliverable is based on its vendor-specific objective evidence (“VSOE”) if available, third party evidence (“TPE”) if VSOE is not available, or BESP if neither VSOE nor TPE is available. The total arrangement consideration is allocated to each unit of accounting based on its relative selling price which is determined based on the Company’s BESP for that deliverable because neither VSOE nor TPE exist. In determining its BESP for each deliverable, the Company considered its overall pricing model and objectives, as well as market or competitive conditions that may impact the price at which the Company would transact if the deliverable were sold regularly on a standalone basis. The Company monitors the conditions that affect its determination of selling price for each deliverable and reassesses such estimates periodically.

FANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands of United States Dollars (“US\$”), except for number of shares and per share data)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E-Commerce Services

E-commerce service revenues consist of revenues derived from:

(1) Fang membership services

The Company enters into arrangements with real-estate developers, pursuant to which the Company charges its customers RMB5,000 to RMB20,000 in order for them to purchase specified properties from the real estate developers at a discount significantly greater than the face value of the fees charged by the Company. The discount is either a fixed amount off or a fixed percentage to the price of the specified property. The fees paid by the customers to the Company are refundable before a purchase of the specified properties at a discount is made by the customers or if after the purchase, only if the customers can fulfil certain requirements under the refund policy. The Company chooses to analogize to rights of return guidance in ASC 605-15 when accounting for refundable fees as reliable estimates of refunds can be made based on company-specific historical evidence. Revenues are recognized by the Company when cash consideration of the fees is received and the discount has been applied by the customers to pay for the purchase price of the specified properties, net of estimated refunds. Cash received in advance of the purchase of specified properties and provision for refunds are recorded as “customers’ refundable fees” (Note 13). The provision of refunds was insignificant for the years ended December 31, 2015, 2016 and 2017.

Additionally, the Company, real-estate developers and marketing agencies entered into tri-party cooperation arrangements for certain Fang membership services. When customers use their Fang membership cards to purchase specified properties in selected advertisements published by the marketing agents, a portion of the proceeds from the Fang membership services is remitted to the marketing agents. The Company recognized revenues from this type of Fang membership services on a net basis, representing the portion of proceeds received from customers that is ultimately retained by the Company as it is an agent in the arrangement. Commencing in 2014, the Company also entered into cooperation arrangements directly with real-estate developers for Fang membership services. The Company either engages third-party real estate agents or places advertisements with marketing agents to promote the real-estate projects. The Company recognized revenues from this type of Fang membership services on a gross basis, representing the proceeds received from the real-estate developers, as the Company is the primary obligor in the arrangement. Payments to third-party real estate agents are recorded as cost of sales, while payments to marketing agents are recorded as selling expenses. The portion to be remitted to third-party real estate agents and marketing agents is recorded as amounts payable to sales and marketing agents in “accrued expenses and other liabilities” on the consolidated balance sheets (Note 12).

(2) Direct sales services

The Company promotes property developments of its developer clients primarily through its websites and mobile applications (“mobile apps”). Potential buyers can register with the Company free of charge if they are interested in any real estate properties covered by its direct sales services. After the registration, the Company provides the buyers with additional information about the properties and related services, such as tours to visit the property developments and other services to facilitate property purchases. By using the direct sales services, individual buyers can enjoy discounted prices for properties that the Company offers from its developer clients. The Company charges its developer clients a fee for each property it sold through its direct sales services at a predetermined percentage of the value of the individual transaction. Thereafter, the real estate developers can request for refund only if they can fulfil certain requirements under the refund policy. The Company chooses to analogize to rights of return guidance in ASC 605-15 when accounting for refundable fees as reliable estimates of refunds can be made based on company-specific historical evidence. Revenues are recognized by the Company based on total of successful purchase transactions made, net of estimated refunds. The provision of refunds was insignificant for the years ended December 31, 2015, 2016 and 2017.

FANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands of United States Dollars (“US\$”), except for number of shares and per share data)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E-Commerce Services (continued)

(3) Sublease services

Beginning in 2015, the Company began to provide sublease service through its websites. The Company identifies suitable properties and initially enters into lease agreements with the property owners. The lease agreements allow the Company to sublease the properties. Regardless whether the leased property is subsequently sub-leased by the Company, the lease agreement between the Company and the property owner remains in effect, including the Company’s obligation to make fixed rental payments over the non-cancellable lease term. The property owner is not a party to, and therefore not entitled to, any rights or obligations under the sublease agreement. Sublease rental income is recorded as revenue from subleasing services and recognized on a gross basis as the Company is the principal to the sublease arrangements. The sublease income is recognized on a straight-line basis over the lease term.

Sublease rental income for the year ended December 31, 2016 and 2017 was US\$31,929, and US\$15,085 respectively. Future minimum sublease rental incomes expected to be received under noncancellable sublease agreements as of December 31, 2017 are as follows:

	US\$
2018	5,668
2019	150
2020	21
2021	1
2022 and thereafter	-
	5,840

(4) Real estate online brokerage services

Commencing in 2015, the Company provided brokerage services for sellers and buyers of secondary properties. Brokerage services may include property listing services, advisory services, transaction negotiation services and administration services. In addition to secondary property sales, the Company also assists property owners and potential tenants with leasing transactions. Commission revenues derived from brokerage services is recognized upon the execution, fulfillment of all performance obligations specified on the tri-party transaction agreement that is entered into between the seller, buyer and the Company in its capacity as broker, and cash receipt.

(5) Online decoration services

Beginning in 2015, the Company launched online decoration services, which includes interior design, remodeling, renovation, furnishing and other home improvement services. The Company generally charges the customers a fixed fee. The Company recognizes revenues based on the percentage-of-completion method and measures progress using input measures, i.e., cost-to-cost, in accordance with ASC 605-35, “Revenue Recognition Construction-Type and Production-Type Contracts.” Estimated losses, if any, are recognized during the period in which the loss becomes probable and reasonably estimable.

FANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands of United States Dollars (“US\$”), except for number of shares and per share data)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Services

Financial services are provided through the Company’s online financial platform www.fangtx.com and offline micro loan subsidiaries. The Company provides secured loans in the form of entrusted loans, mortgage loans and unsecured loans, primarily to borrowers that meet the Company’s credit assessment requirements. The Company ceased to provide entrusted loans since 2017. Revenues derived from loan interest income and annual service fees are recognized using the effective interest rate method. The Company does not accrue interest on loans receivable that are considered impaired or more than 90 days past due unless either the receivable has not been collected due to administrative reasons or the receivable is well secured and in the process of collection. Unsecured loans stop accruing interest when 60 days past due and are classified as impaired loan.

Other Value-added Services

The Company generates revenues from other value-added services including subscription services for access to the Company’s information database and consulting services for customized and industry-related research reports and indices. Revenues derived from subscription services for access to the Company’s information database are recognized ratably over the subscription period. Revenues derived from consulting services for customized and industry-related research reports and indices are recognized when the relevant services are completed.

The Company’s business is subject to VAT, surcharges or cultural construction fees levied on advertising-related sales in the PRC. In accordance with ASC 605-45, “Revenue Recognition-Principal Agent Considerations”, all such VAT, surcharges and cultural construction fees are presented as cost of revenues in the consolidated statements of comprehensive income (loss). VAT, surcharges and cultural construction fees for the years ended December 31, 2015, 2016 and 2017 were US\$48,253 and US\$68,007 and US\$33,320, respectively.

All service fees received in advance of the provision of services are initially recorded as deferred revenues and subsequently recognized as revenues when the related services are performed by the Company.

Cost of Revenues

Cost of revenues consists of employee costs, VAT and surcharges, rental costs incurred in relation to sublease services, labor and decoration material costs related to online decoration services, server and bandwidth leasing fees, payments to third-party real estate agents and other direct costs incurred in providing the related services. These costs are expensed when incurred.

Advertising Expenses

Advertising expenses are expensed when incurred and are included in selling expenses in the consolidated statements of comprehensive income (loss). For the years ended December 31, 2015, 2016 and 2017, the advertising expenses were US\$44,123, US\$61,762 and US\$16,869, respectively.

Leases

Leases are classified at the inception date as either a capital lease or an operating lease. A lease is a capital lease if any of the following conditions exists: (a) ownership is transferred to the lessee by the end of the lease term, (b) there is a bargain purchase option, (c) the lease term is at least 75% of the property’s estimated remaining economic life or (d) the present value of the minimum lease payments at the beginning of the lease term is 90% or more of the fair value of the leased property to the lessor at the inception date. A capital lease is accounted for as if there was an acquisition of an asset and an incurrence of an obligation at the inception of the lease. All other leases are accounted for as operating leases wherein rental payments are expensed as incurred. The Company had no capital leases for any of the years presented.

FANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands of United States Dollars (“US\$”), except for number of shares and per share data)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Taxes

The Company follows the liability method of accounting for income taxes, whereby deferred tax assets and liabilities are recognized based on the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and attributable to operating loss and tax credit carryforwards, if any. The Company reduces the carrying amounts of deferred tax assets by a valuation allowance, if based on the available evidence, it is “more-likely-than-not” that such assets will not be realized. Accordingly, the need to establish valuation allowances for deferred tax assets is assessed at each reporting period based on a “more-likely-than-not” realization threshold. This assessment considers, among other matters, the nature, frequency and severity of current and cumulative losses, forecasts of futures profitability, the duration of statutory carryforward periods, the Company’s experience with operating loss and tax credit carryforwards, if any, not expiring.

The Company applies ASC 740, “Income taxes” (“ASC 740”), to account for uncertainties in income taxes. In accordance with the provisions of ASC 740, the Company recognizes in its financial statements the impact of a tax position if a tax return position or future tax position is “more-likely-than-not” to prevail based on the facts and technical merits of the position. Tax positions that meet the “more-likely-than-not” recognition threshold are measured at the largest amount of tax benefit that has a greater than fifty percent likelihood of being realized upon settlement.

The Company’s estimated liability for unrecognized tax benefits, which is included in “accrued expenses and other liabilities”, is periodically assessed for adequacy and may be affected by changing interpretations of laws, rulings by tax authorities, changes and/or developments with respect to tax audits, and expiration of the statutes of limitation. The outcome for a particular audit cannot be determined with certainty prior to the conclusion of the audit and, in some cases, appeal or litigation process. The actual benefits ultimately realized may differ from the Company’s estimates. As each audit is concluded, adjustments, if any, are recorded in the Company’s financial statements. Additionally, in future periods, changes in facts, circumstances, and new information may require the Company to adjust the recognition and measurement estimates with regard to individual tax positions. Changes in recognition and measurement estimates are recognized in the period in which the changes occur.

Interest and penalties arising from underpayment of income taxes are computed in accordance with the related PRC tax law. The amount of interest expense is computed by applying the applicable statutory rate of interest to the difference between the tax position recognized and the amount previously taken or expected to be taken in a tax return. Interest and penalties recognized in accordance with ASC 740 are classified in the consolidated statements of comprehensive income (loss) as income tax expense.

FANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands of United States Dollars (“US\$”), except for number of shares and per share data)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Government Grants

Government grants primarily consist of financial subsidies received from provincial and local governments for operating a business in their jurisdictions and compliance with specific policies promoted by the local governments. For certain government grants, there are no defined rules and regulations to govern the criteria necessary for companies to receive such benefits, and the amount of financial subsidy is determined at the discretion of the relevant government authorities. The government grants of non-operating nature with no further conditions to be met are recorded as non-operating income in “Other income, net” when received. The government grants with certain operating conditions are recorded as liabilities when received and will be recorded as operating income when the conditions are met. For the years ended December 31, 2015, 2016 and 2017, US\$4,936 and US\$6,469, US\$3,154 respectively, of government grants were recognized as non-operating income.

Share-based Compensation

The Company’s employees and directors participate in the Company’s share-based award incentive plan which is more fully discussed in Note 17. The Company applies ASC 718, “Compensation-Stock Compensation” (“ASC 718”), to account for its employee share-based payments. There were no share-based payments made to non-employees for any of the years presented.

In accordance with ASC 718, the Company determines whether a share option should be classified and accounted for as a liability award or an equity award. All grants of share-based awards to employees classified as equity awards are recognized in the financial statements based on their grant date fair values which are calculated using an option pricing model. All grants of share-based awards to employees and directors classified as liabilities are remeasured at the end of each reporting period with an adjustment for fair value recorded to the current period expense in order to properly reflect the cumulative expense based on the current fair value of the vested rewards over the vesting periods. The Company has elected to recognize compensation expense using the straight-line method for all employee equity awards granted with graded vesting based on service conditions, which were not subject to performance vesting conditions.

Meanwhile, the Company uses the accelerated attribution method for equity awards with performance conditions on a tranche-by-tranche basis based on the probable outcome of the performance conditions. To the extent the required vesting conditions are not met resulting in the forfeiture of the share-based awards, previously recognized compensation expense relating to those awards is reversed. With effect from January 1, 2017, forfeitures are recognized when they occur.

Cancellation of an award accompanied by the concurrent grant of a replacement award is accounted for as a modification of the terms of the cancelled award (“modified awards”). The compensation costs associated with the modified awards are recognized if the new vesting condition is achieved. Total recognized compensation cost for the awards is at least equal to the fair value of the awards at the grant date unless at the date of the modification the performance or service conditions of the original awards are not expected to be satisfied. The incremental compensation cost is measured as the excess of the fair value of the replacement award over the fair value of the cancelled award at the cancellation date. Therefore, in relation to the modified awards, the Company recognizes share-based compensation over the vesting periods of the replacement award, which comprises, (i) the amortization of the incremental portion of share-based compensation over the remaining vesting term and (ii) any unrecognized compensation cost of the original award over the original term.

In March 2016, the Financial Accounting Standards Board (“FASB”) issued a new accounting standard update on simplifying the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The new guidance also allows an entity to account for forfeitures when they occur. This guidance became effective for reporting periods beginning after December 15, 2016. The Company adopted this new guidance on January 1, 2017. In prior years, excess tax benefits were recognized in additional paid-in capital; tax deficiencies were recognized either as an offset to accumulated excess tax benefits, if any, or in the consolidated statement of comprehensive income. Excess tax benefits were not recognized until the deduction reduces taxes payable. Upon adoption, all excess tax benefits and tax deficiencies are recognized as income tax expense or benefit in the consolidated statement of comprehensive income. This change was adopted prospectively and did not have a material impact on the Group’s consolidated financial statements. The Company also recognized excess tax benefits regardless of whether the benefits reduces income tax payable in the current period and elected to account for forfeitures as they occur, rather than estimate expected forfeitures. These changes were adopted on a modified retrospective basis, and resulted in no material cumulative effect adjustment to retained earnings.

FANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands of United States Dollars (“US\$”), except for number of shares and per share data)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Earnings per Share

The Company computes earnings per Class A and Class B ordinary shares in accordance with ASC 260, “Earnings Per Share” (“ASC 260”), using the two class method. Under the provisions of ASC 260, basic net income per share is computed using the weighted average number of ordinary shares outstanding during the period except that it does not include unvested ordinary shares subject to repurchase or cancellation. Diluted net income per share is computed using the weighted average number of ordinary shares and, if dilutive, potential ordinary shares outstanding during the period. Potentially dilutive securities have been excluded from the computation of diluted net income per share if their inclusion is anti-dilutive. Potential ordinary shares consist of the incremental ordinary shares issuable upon the exercise of stock options, contracts that may be settled in the Company’s stock or cash and the conversion of the convertible senior notes. The dilutive effect of outstanding stock options and convertible senior notes is reflected in diluted earnings per share by application of the treasury stock method and the if-converted method, respectively. The computation of the diluted net income per share of Class A ordinary shares assumes the conversion of Class B ordinary shares, while the diluted net income per share of Class B ordinary shares does not assume the conversion of those shares.

The liquidation and dividend rights of the holders of the Company’s Class A and Class B ordinary shares are identical, except with respect to voting. The Class B ordinary shareholders do not have the legal ability to cause the Company’s board of directors to declare unequal dividends to the holders of Class A and Class B ordinary shares. As a result, and in accordance with ASC 260, the undistributed earnings for each year are allocated based on the contractual participation rights of the Class A and Class B ordinary shares as if the earnings for the year had been distributed. As the liquidation and dividend rights are identical, the undistributed earnings are allocated on a proportionate basis. Further, as the conversion of Class B ordinary shares is assumed in the computation of the diluted net income per share of Class A ordinary shares, the undistributed earnings are equal to net income for that computation. For the purposes of calculating the Company’s basic and diluted earnings per Class A and Class B ordinary shares, the ordinary shares relating to the options that were exercised are assumed to have been outstanding from the date of exercise of such options.

Derivative Instruments

ASC 815, “Derivatives and Hedging”, requires all contracts which meet the definition of a derivative to be recognized on the balance sheet as either assets or liabilities and recorded at fair value. Changes in the fair value of derivative financial instruments are either recognized periodically in earnings or in other comprehensive income (loss) depending on the use of the derivative and whether it qualifies for hedge accounting. Changes in fair values of derivatives not qualified as hedges are reported in earnings. The estimated fair values of derivative instruments are determined at discrete points in time based on the relevant market information. These estimates are calculated with reference to the market rates using industry standard valuation techniques. The fair value of the derivative instruments held by the Company was insignificant for all of the years presented.

Comprehensive Income (Loss)

Comprehensive income (loss) is defined as the change in equity of the Company during a period from transactions and other events and circumstances excluding transactions resulting from investments from owners and distributions to owners. Accumulated other comprehensive income (loss), as presented on the consolidated balance sheets, includes (i) the cumulative foreign currency translation adjustments, (ii) unrealized gain (loss) on available-for-sale securities, and (iii) gains and losses on intra-entity foreign currency transactions that are of a long-term-investment nature (that is, settlement is not planned or anticipated in the foreseeable future) between consolidated entities.

Contingencies

The Company records accruals for certain of its outstanding legal proceedings or claims when it is probable that a liability will be incurred and the amount of loss can be reasonably estimated. The Company evaluates, on a quarterly basis, developments in legal proceedings or claims that could affect the amount of any accrual, as well as any developments that would make a loss contingency both probable and reasonably estimable. The Company discloses the amount of the accrual if it is material.

FANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands of United States Dollars (“US\$”), except for number of shares and per share data)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contingencies (continued)

When a loss contingency is not both probable and estimable, the Company does not record an accrued liability but discloses the nature and the amount of the claim, if material. However, if the loss (or an additional loss in excess of the accrual) is at least reasonably possible, then the Company discloses an estimate of the loss or range of loss, if such estimate can be made and material, or states that such estimate is immaterial if it can be estimated but immaterial, or discloses that an estimate cannot be made. The assessments of whether a loss is probable or reasonably possible, and whether the loss or a range of loss is estimable, often involve complex judgments about future events. Management is often unable to estimate the loss or a range of loss, particularly where (i) the damages sought are indeterminate, (ii) the proceedings are in the early stages, or (iii) there is a lack of clear or consistent interpretation of laws specific to the industry-specific complaints among different jurisdictions. In such cases, there is considerable uncertainty regarding the timing or ultimate resolution of such matters, including eventual loss, fine, penalty or business impact, if any.

Recent accounting pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, “Revenue from Contracts with Customers” (“ASU 2014-09”). ASU 2014-09 supersedes the revenue recognition requirements in ASC topic 605, and requires entities to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. This update also requires enhanced disclosures regarding the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity’s contracts with customers. ASU 2014-09 is originally effective for the annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. ASU No. 2015-14, “Revenue from Contracts with Customers” (“ASU 2015-14”), defers the effective date of ASU 2014-09 by one year. As a result, ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2017 and interim periods therein. Early adoption is permitted to the original effective date. The Company will adopt the new revenue standard effective on January 1, 2018, using the modified retrospective method. The cumulative effect of initially applying the new standard will be recognized on the day of initial application and prior periods will not be retrospectively adjusted.

The Company is in the process of finalizing its assessment of the impact of the new revenue standard on its primary sources of revenues, as well as the design and implementation of relevant controls to the Company’s financial reporting process.

As a result of the assessment, the Company expects the key impacts from the adoption of the new revenue standard with respect to its primary sources of revenues as follows:

- The Company’s revenues will be presented net of value-added tax collected on behalf of third parties, which are currently presented in cost of revenues.

- The Company currently assesses whether collectability is reasonably assured at the outset of the arrangement, and subsequently reassessed if there is a substantive change in facts and circumstances. If the collectability of all or a portion of the fee is not reasonably assured, all revenue recognition are deferred until payment is received (assuming all of the other revenue recognition criteria have been met). Under the new revenue standard, no revenue will be recognized until it is probable that the Company will collect substantially all of the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer. The assessment is based on whether the customer has the ability and intention to pay the consideration. In cases in which the contract does not meet this criteria for revenue recognition, the Company will recognize nonrefundable consideration received as revenue only when one of the following has occurred:

- the Company has fully performed and substantially all of the consideration has been received;
- the contract has been terminated; or
- the Company has transferred control of the goods or services and has stopped transferring (and has no obligation under the contract to transfer) additional goods or services to the customer, if applicable.

Until one of these events happens, any consideration received from the customer is initially recorded as a liability.

- The Company’s current policy is to require written contracts with its customers as persuasive evidence of its revenue arrangements. In certain cases where services are being delivered prior to the receipt of the signed contracts, the revenue is currently deferred until such time the final signed contracts are collected. Under the new revenue standard, revenues may be recognized prior to the receipt of the signed contracts (assuming all other revenue recognition criteria are satisfied), as contracts may be written, oral, or implied based on an entity’s customary business practices, so long as they are legally enforceable.

FANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands of United States Dollars (“US\$”), except for number of shares and per share data)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Recent accounting pronouncements (continued)

In January 2016, the FASB issued ASU No. 2016-01 (“ASU 2016-01”), *Financial Instruments*. ASU 2016-01 requires equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. An entity may choose to measure equity investments that do not have readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. ASU 2016-01 also simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment. When a qualitative assessment indicates that impairment exists, an entity is required to measure the investment at fair value. For public business entities, the amendments are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted. The Company will adopt the new standard effective January 1, 2018. The adoption of ASU 2016-01 will increase the volatility of the Company’s non-operating income, resulting from the remeasurement of equity investments. The Company currently expects the impact from adoption to be a reclassification of the unrealized gain on available-for-sale securities of US\$163,785 reported in accumulated other comprehensive income to retained earnings at the date of adoption.

In February 2016, the FASB issued ASU No. 2016-02, “Leases (Topic 842)” (“ASU 2016-02”). ASU 2016-02 requires lessees to recognize the rights and obligations resulting from leases as assets and liabilities. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. The Company expects the impact of the adoption of ASU 2016-02 is a gross up of assets and liabilities on the consolidated balance sheet.

In June 2016, the FASB issued ASU No. 2016-13 (“ASU 2016-13”), *Financial Instruments – Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments*. ASU 2016-13 changes the impairment model for most financial assets and certain other instruments. The standard will replace “incurred loss” approach with an “expected loss” model for instruments measured at amortized cost. For available-for-sale debt securities, entities will be required to record allowances rather than reduce the carrying amount, as they do today under the other-than-temporary impairment model. The standard is effective for public business entities for annual periods beginning after December 15, 2019, and interim periods therein. Early adoption is permitted. The Company is currently evaluating the impact of adopting this standard on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230), Classification of Certain Cash Receipts and Cash Payments (“ASU 2016-15”)*. ASU 2016-15 reduces the existing diversity in practice in financial reporting across all industries by clarifying certain existing principles in ASC topic 230, *Statement of Cash Flows (“ASC 230”)*, including providing additional guidance on how and what an entity should consider in determining the classification of certain cash flows. The amendments are effective for public business entities for interim periods and fiscal years beginning after December 15, 2017. The adoption of this guidance is not expected to have a material impact on the Group’s consolidated financial statements.

In addition, in November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230), Restricted Cash (“ASU 2016-18”)*. ASU 2016-18 clarifies certain existing principles in ASC 230, including providing additional guidance related to transfers between cash and restricted cash and how entities present, in their statement of cash flows, the cash receipts and cash payments that directly affect the restricted cash accounts. The amendments are effective for public business entities for interim periods and fiscal years beginning after December 31, 2017. Early adoption is permitted. The amendments should be applied retrospectively to each period presented. The adoption of these amendments will impact the presentation and classification of restricted cash in the Group’s consolidated statements of cash flows.

FANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands of United States Dollars (“US\$”), except for number of shares and per share data)

3. CONCENTRATION OF RISKS

Concentration of Credit Risk

Assets that potentially subject the Company to significant concentration of credit risk primarily consist of cash and cash equivalents, restricted cash, fixed-rate time deposits classified as short-term investments, accounts receivable, funds receivable, loans receivable and commitment deposits. As of December 31, 2017, the Company had US\$507,079 in cash and cash equivalents, restricted cash (current) and short-term investments, 95.5% and 4.5% of which were held by financial institutions in the PRC and financial institutions outside of the PRC, respectively. Under PRC law, it is generally required that a commercial bank in the PRC that holds third-party cash deposits protect the depositors' rights and interests over their deposited money; PRC banks are subject to a series of risk control regulatory standards; and PRC bank regulatory authorities are empowered to take over the operation and management of any PRC bank that faces a material credit crisis. In the event of bankruptcy of one of the financial institutions in which the Company has deposits or investments, it may be unlikely to claim its deposits or investments back in full. The Company selected reputable financial institutions with high credit ratings to deposit its assets. The Company regularly monitors the ratings of the financial institutions in case of any defaults. There has been no recent history of default in relation to these financial institutions.

Accounts receivable are typically unsecured and are derived from revenue earned from customers in the PRC. The risk with respect to accounts receivable is mitigated by credit evaluations the Company performs on its customers and its ongoing monitoring of outstanding balances. The Company regularly reviews the creditworthiness of its customers, and requires collateral from its customers in certain circumstances when accounts receivables become long overdue.

Funds receivable represent amounts due from third-party payment service providers. The Company carefully considers and monitors the credit worthiness of the third-party payment service providers to mitigate any risks associated with funds receivable.

The Company is exposed to default risk on its loans receivable. The Company assesses the allowance for credit loss related to loans receivable on a quarterly basis, either on an individual or collective basis. As of December 31, 2017, no single borrower comprised a significant portion of the Company's loan portfolio.

The Company regularly reviews the creditworthiness of real estate developers, and requires collateral from real estate developers in certain circumstances when commitment deposits become overdue.

Concentration of Customers

There were no revenues from customers which individually represented greater than 10% of the total revenues for any of the years ended December 31, 2015, 2016 and 2017.

Current Vulnerability Due to Certain Other Concentrations

The Company's operations may be adversely affected by significant political, economic and social uncertainties in the PRC. Although the PRC government has been pursuing economic reform policies for more than 30 years, no assurance can be given that the PRC government will continue to pursue such policies or that such policies may not be significantly altered, especially in the event of a change in leadership, social or political disruption or unforeseen circumstances affecting the PRC's political, economic and social conditions. There is also no guarantee that the PRC government's pursuit of economic reforms will be consistent or effective.

FANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands of United States Dollars (“US\$”), except for number of shares and per share data)

3. CONCENTRATION OF RISKS (continued)

Current Vulnerability Due to Certain Other Concentrations (continued)

The Company almost transacts all of its business in RMB, which is not freely convertible into foreign currencies. On January 1, 1994, the PRC government abolished the dual rate system and introduced a single rate of exchange as quoted daily by the People’s Bank of China (the “PBOC”). However, the unification of the exchange rates does not imply that the RMB may be readily convertible into United States dollars or other foreign currencies. All foreign exchange transactions continue to take place either through the PBOC or other banks authorized to buy and sell foreign currencies at the exchange rates quoted by the PBOC.

Approval of foreign currency payments by the PBOC or other institutions requires submitting a payment application form together with suppliers’ invoices, shipping documents and signed contracts. Additionally, the value of the RMB is subject to changes in central government policies and international economic and political developments affecting supply and demand in the PRC foreign exchange trading system market.

Internet and advertising related businesses are subject to significant restrictions under current PRC laws and regulations. Specifically, foreign investors are not allowed to own more than a 50% equity interest in any ICP business. In 2016, a foreign invested entity mainly owned and ultimately controlled by our WFOE obtained the ICP to operate www.fang.com.

The Company conducts its operations in the PRC through contractual arrangements entered into between the WOFEs and the PRC Domestic Entities. The relevant regulatory authorities may find the current contractual arrangements and businesses to be in violation of any existing or future PRC laws or regulations. If the Company or any of its current or future PRC Domestic Entities or subsidiaries are found in violation of any existing or future laws or regulations, or fail to obtain or maintain any of the required permits or approvals, the relevant regulatory authorities would have broad discretion in dealing with such violations, including levying fines, confiscating the income of WOFEs, PRC Domestic Entities and the PRC Domestic Entities’ subsidiaries, revoking the business licenses or operating licenses of WOFEs, PRC Domestic Entities and the PRC Domestic Entities’ subsidiaries, shutting down the Company’s servers or blocking the Company’s websites, discontinuing or placing restrictions or onerous conditions on the Company’s operations, requiring the Company to undergo a costly and disruptive restructuring, or enforcement actions that could be harmful to the Company’s business. Any of these actions could cause significant disruption to the Company’s business operations and severely damage the Company’s reputation, which would in turn materially and adversely affect the Company’s business and results of operations. In addition, if the imposition of any of these penalties causes the Company to lose the rights to direct the actives of PRC Domestic Entities or the Company’s right to receive their economic benefits, the Company would no longer be able to consolidate the PRC Domestic Entities.

In addition, if the WOFEs, PRC Domestic Entities and the PRC Domestic Entities’ subsidiaries or their shareholders fail to perform their obligations under the Contractual Agreements, the Company may have to incur substantial costs and expend resources to enforce the Company’s rights under the contracts. The Company may have to rely on legal remedies under PRC law, including seeking specific performance or injunctive relief and claiming damages, which may not be effective. All of these Contractual Agreements 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 the PRC legal procedures. The legal system in the PRC is not as developed as in other jurisdictions, such as the United States. As a result, uncertainties in the PRC legal system could limit the Company’s ability to enforce these Contractual Agreements. Under PRC law, rulings by arbitrators are final, parties cannot appeal the arbitration results in courts, and prevailing parties may only enforce the arbitration awards in PRC courts through arbitration award recognition proceedings, which would incur additional expenses and delay. In the event the Company is unable to enforce these Contractual Agreements, the Company may not be able to exert effective control over its PRC Domestic Entities, and the Company’s ability to conduct its business may be negatively affected.

The Company believes that its corporate structure and Contractual Agreements of the Company’s PRC Domestic Entities and WFOEs in China are in compliance with all existing PRC laws and regulations. Therefore, in the opinion of management, (i) the ownership structure of the Company and the PRC Domestic Entities are in compliance with existing PRC laws and regulations; (ii) the Contractual Agreements with PRC Domestic Entities and their nominee shareholder are valid and binding, and will not result in any violation of PRC laws or regulations currently in effect; and (iii) the Company’s business operations are in compliance with existing PRC law and regulations in all material respects.

FANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands of United States Dollars (“US\$”), except for number of shares and per share data)

4. INVESTMENTS

Short-term investments and long-term investments consisted of the following:

	<u>As of December 31,</u>	
	<u>2016</u>	<u>2017</u>
	<u>US\$</u>	<u>US\$</u>
<u>Short-term investments</u>		
Trading securities	-	15,833
Fixed-rate time deposits	42,929	39,968
	<u>42,929</u>	<u>55,801</u>
<u>Long-term investments:</u>		
Available-for-sale securities:		
- Color Life Service Group ("Color Life")	20,606	4,554
- Hopefluent Group Holdings Limited ("Hopefluent")	31,033	47,729
- Shenzhen World Union Properties Consultancy Co., Ltd. ("World Union")	-	318,065
	<u>51,639</u>	<u>370,348</u>
Cost method investments:		
- Shenzhen World Union Properties Consultancy Co., Ltd. ("World Union")	107,088	-
- Sindeo, Inc. ("Sindeo")	2,768	-
- Guilin Bank	12,173	38,817
- Xian Chuangdian Quancheng Real Estate Consultant Limited (“Chuangdian”)	3,294	3,498
- Tospur Real Estate Consulting Co., Ltd. ("Tospur")	54,918	58,301
	<u>180,241</u>	<u>100,616</u>
	<u>231,880</u>	<u>470,964</u>

As of December 31, 2016 and 2017, the Company held fixed-rate time deposits purchased from commercial banks and financial institutions with maturities of less than one year.

In October 2017, of the Company invested US\$15,299 in PRC mutual funds, which were classified as trading securities as they were held principally for the purpose of selling in the near term. As of December 31, 2017, the market price increases to US\$15,833 and an unrealized gain of US\$518 was included in earnings.

Interest income on the fixed-rate time deposits of US\$9,474, US\$11,367 and US\$11,322 were recognized for the years ended December 31, 2015, 2016 and 2017, respectively.

Dividends from the long-term investments of US\$1,333, US\$3,281 and US\$6,692 were recognized as investment income in the consolidated statements of comprehensive income (loss) for the years ended December 31, 2015, 2016 and 2017, respectively.

On June 27, 2014, the Company acquired 27,551,733 shares of Color Life, a Hong Kong listed company, for US\$13,583. The investment constituted a 2.76% ownership in Color Life and was classified as an available-for-sale security. As of December 31, 2016, the market price declined to US\$20,606 (December 31, 2015: US\$23,703) and an unrealized loss of US\$3,097 was recorded in other comprehensive income (loss) for the year ended December 31, 2016. In 2017, the Company sold 20,705,000 shares for a total consideration of US\$12,317, and recognized a gain of US\$2,110 in the consolidated statements of comprehensive income (loss). As of December 31, 2017, the market price of the remaining shares declined to US\$4,554. Total fair value decrease of US\$3,735 was recorded in other comprehensive income (loss) and US\$2,110 gain related to the sale was reclassified out of accumulated other comprehensive income for the year ended December 31, 2017.

FANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands of United States Dollars (“US\$”), except for number of shares and per share data)

4 INVESTMENTS (continued)

In November 2014, the Company acquired an aggregate of 111,935,037 shares of Hopefluent, a Hong Kong listed company, for US\$43,361. The investment constituted a 17.26% ownership in Hopefluent and was classified as an available-for-sale security. As of December 31, 2016, the market price declined to US\$31,033 (December 31, 2015: US\$31,339) and an unrealized loss of US\$306 was recorded in other comprehensive income (loss) for the year ended December 31, 2016. In 2017, the Company sold 3,164,000 shares for a total consideration of US\$1,614, and recognized a gain of US\$626 in the consolidated statements of comprehensive income (loss). As of December 31, 2017, the market price of the remaining shares increased to US\$47,729. Total fair value increase of US\$18,309 was recorded in other comprehensive income and US\$626 gain related to the sale was reclassified out of accumulated other comprehensive income for the year ended December 31, 2017.

On May 29, 2015, the Company acquired an aggregate of 145,376,744 shares of World Union, a PRC listed company, at a total consideration of US\$121,393. The investment constituted a 10.06% ownership in World Union. The investment in World Union was classified as a cost method investment upon acquisition, as the Company could not freely sell the shares due to a lock-up provision of 36 months. On April 8, 2016, World Union declared a stock dividend whereby four shares were distributed to shareholders for every ten shares held. As a result, the Company's shareholding increased from 145,376,744 shares to 203,527,442 shares. As of December 31, 2017, as the lock-up restriction will terminate within one year, the classification of the investment changed from a cost method to an available for sale security, and the fair value of the investment was measured based on the market price, adjusted for the effect of the remaining restriction, in accordance with ASC 820. As of December 31, 2017, the fair value of World Union was US\$318,065 and US\$198,264 and the related tax effect of US\$49,566 were recorded in other comprehensive income for the year ended December 31, 2017. As of December 31, 2017, the investment constituted a 9.96% ownership in World Union.

On October 29, 2015, the Company acquired 11.03% of the share capital of Sindeo, a non-listed company, for US\$5,000. The investment in Sindeo was classified as a cost method investment, as the Company does not have significant influence over Sindeo and because there is no readily determinable fair value. During the year ended December 31, 2016 and 2017, the impairment loss of US\$2,232 and US\$2,768, respectively, was recorded in the statement of comprehensive income (loss) as Sindeo's financial condition had deteriorated as evidenced by significant operating losses.

On July 12, 2016, 30,595,859 shares of Guilin Bank, a PRC non-listed company, was transferred by a third-party to repay a portion of its overdue receivables of US\$12,173 owed to the Company. The investment constituted a 1.02% ownership in Guilin Bank. The investment was classified as a cost method investment, as the Company does not have significant influence over Guilin Bank and because there is no readily determinable fair value. On September 25, 2017, additional 42,834,202 shares of Guilin Bank was transferred by the third-party in full satisfaction of its remaining overdue receivables of US\$24,695 to the Company. The total investment constituted a 1.98% ownership in Guilin Bank. In October 2017, the Company received 7,343,006 shares of Guilin Bank as a stock dividend and the Company's shareholding increased from 73,430,061 to 80,773,067. No impairment on the investment in Guilin Bank was recognized for the year ended December 31, 2017.

On January 21, 2016, the Company acquired an aggregate of 4,411,765 shares of Chuangdian, which is listed on the National Equities Exchange and Quotations (“NEEQ”) in the PRC, for a total consideration of US\$3,294. The investment constituted a 15% ownership in Chuangdian and was classified as a cost method investment, as the Company does not have significant influence and because there is no readily determinable fair value, as the breadth and scope of NEEQ is not comparable to equivalent U.S markets. The Company received 1,378,165 shares and 2,766,177 shares as dividends in 2017 and 2016, respectively. No impairment on the investment in Chuangdian was recognized for the year ended December 31, 2017.

On December 10, 2014, the Company acquired 16% of the share capital of Tospur, a non-listed company, for US\$62,257. The investment in Tospur was classified as a cost method investment, as the Company does not have significant influence over Tospur and because there is no readily determinable fair value. No impairment on the investment in Tospur was recognized for the year ended December 31, 2017.

FANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands of United States Dollars (“US\$”), except for number of shares and per share data)

4 INVESTMENTS (continued)

The following is a summary of the available-for-sale securities as of December 31, 2016 and 2017:

	<u>Original Cost</u> US\$	<u>Gross Unrealized Gains</u> US\$	<u>Gross Unrealized Losses</u> US\$	<u>Fair Value (Net Carrying Amount)</u> US\$
December 31, 2016				
- Color Life	13,583	7,023	-	20,606
- Hopefluent	34,944	-	(3,911)	31,033
	<u>48,527</u>	<u>7,023</u>	<u>(3,911)</u>	<u>51,639</u>
December 31, 2017				
- Color Life	3,376	1,178	-	4,554
- Hopefluent	33,956	13,773	-	47,729
- World Union	121,393	196,672	-	318,065
	<u>158,725</u>	<u>211,623</u>	<u>-</u>	<u>370,348</u>

As of December 31, 2016 and 2017, the total losses for securities with net losses in accumulated other comprehensive income (loss) were US\$3,911 and nil, respectively. The following table shows all available-for-sale securities in an unrealized loss position for which an other-than-temporary impairment has not been recognized and the related gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position:

	As of December 31, 2016					
	<u>Less than 12 Months</u>		<u>12 Months or Longer</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized Loss</u>	<u>Fair Value</u>	<u>Unrealized Loss</u>	<u>Fair Value</u>	<u>Unrealized Loss</u>
Hopefluent	31,033	(306)	-	(3,605)	31,033	(3,911)
Total available-for-sale securities	<u>31,033</u>	<u>(306)</u>	<u>-</u>	<u>(3,605)</u>	<u>31,033</u>	<u>(3,911)</u>

FANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands of United States Dollars (“US\$”), except for number of shares and per share data)

5. ACCOUNTS RECEIVABLE

Accounts receivable and the related allowance for doubtful accounts were summarized as follows:

	As of December 31,	
	2016	2017
	US\$	US\$
Accounts receivable	128,038	98,011
Allowance for doubtful accounts	(34,366)	(31,127)
Accounts receivable, net	93,672	66,884

	For the Years Ended		
	December 31,		
	2015	2016	2017
	US\$	US\$	US\$
Movement in allowance for doubtful accounts:			
Balance at beginning of year	21,397	31,064	34,366
Additional provision charged to expenses	18,649	30,025	31,695
Write-offs	(7,209)	(24,250)	(38,351)
Foreign currency translation adjustments	(1,773)	(2,473)	3,417
Balance at end of year	31,064	34,366	31,127

FANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands of United States Dollars (“US\$”), except for number of shares and per share data)

6. PREPAYMENTS AND OTHER CURRENT ASSETS

Prepayments and other current assets consisted of the following:

	<u>As of December 31,</u>	
	<u>2016</u>	<u>2017</u>
	US\$	US\$
Prepaid expenses	13,092	5,845
Advance to employees	1,334	903
Receivable from a broker for exercise of employee stock options	-	808
Rental deposits and others	7,668	4,876
Interest receivable	1,021	2,902
Rent paid to original lessors for sublease services	6,793	5,590
Receivable for real estate properties	989	-
Properties held for sale	-	5,429
Others	8,927	6,351
	<u>39,824</u>	<u>32,704</u>

7. LOANS RECEIVABLE

Beginning in August 2014, the Company launched its financial services business and platform via www.fangtx.com (formerly known as www.txdai.com). The Company initially provided secured and unsecured loans to both individuals and businesses, but ceased to provide loans to businesses by end of 2015. In 2016, loans made to individuals consist primarily of unsecured loans to new home buyers and bridge loans. In 2017, loans made to individuals consist primarily of secured consumer loans.

Secured loans

As of December 31, 2017 and 2016, the duration of secured loans ranged from one to 36 months, and had interest rates ranging from 6% to 21.6% per annum and 6% to 24% per annum. As of December 31, 2017 and 2016, the total outstanding balance were US\$ 132,841 and US\$7,031, respectively.

Unsecured loans

As of December 31, 2017 and 2016, the duration of unsecured loans ranged from one to 36 months, and had interest rates ranging from 1% to 28% per annum and 1% to 28.08% per annum. As of December 31, 2017 and 2016, the total outstanding balance were US\$16,187 and US\$55,479, respectively.

Loans held for investment are recorded at outstanding principal adjusted for any charge-offs, allowance for loan losses and loan origination costs, while loans held for sale are reported at the lower of cost or fair value.

FANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands of United States Dollars (“US\$”), except for number of shares and per share data)

7. LOANS RECEIVABLE (continued)

The Company assesses the allowance for credit loss related to loans receivable on a quarterly basis, either on an individual or collective basis. The Company considers various factors in evaluating loans receivable for possible impairment on an individual basis. These factors include the amount of the loan, historical experience, value of collateral, if any, credit quality and age of the receivables balances. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant revision as more information becomes available. When the evaluation indicates that it is probable that the scheduled interest and principal payments due per the loan agreement are unlikely to be collected, such loan receivable is considered impaired. Impairment is measured on an individual loan basis using either the present value of expected future cash flows discounted at the loan’s effective interest rate or the fair value of the collateral if the loan is secured. The Company evaluates the remainder of its loans receivables portfolio for impairment on a collective basis in accordance with ASC 450-20, Loss Contingencies, and records an allowance for credit loss at the portfolio segment level. When evaluating the loans receivable on a collective basis, the Company applies a formula-based percentage utilizing historical loss data to calculate the collective allowance.

The Company’s internal credit risk ratings are categorized into three categories: pass, special attention and non-performing. A “pass” rating represents the highest quality loans receivable. Typically, the Company considers loans receivable with a risk rating of non-performing to be fully impaired, or up to the fair value of collateral, if any.

The Company derives internal credit risk rating by taking into consideration various customer-specific factors, such as the Company’s specific historical experience with the borrower. Such credit risk rating is updated when facts or circumstances change. Loans receivable are written off at the point when they are considered uncollectible, and all outstanding balances, including any previously earned but uncollected interest income, will be reversed and charged against the allowance for credit loss.

The internal credit risk rating considerations are as follows:

- Pass: Loans for which borrowers are expected to honor the terms of the contracts. There are no indicators to question the borrowers’ ability to repay the principal and accrued interest in full and on a timely basis.
- Special attention: Loans for which borrowers are currently able to repay the principal and no interests are accrued when considered impaired or overdue more than 90 days, the repayment of loans might be adversely affected by some factors.
- Non-performing: Loans for which borrowers may not be able to repay the principal and accrued interest in full. These loans are fully provided for unless secured by collateral

The Company does not accrue interest on loans receivable that are considered impaired or more than 90 days past due unless either the receivable has not been collected due to administrative reasons or the receivable is well secured and in the process of collection. Unsecured loans stop accruing interest when 60 days past due and are classified as impaired loan. After an impaired loans receivable has been placed on nonaccrual status, interest will be recognized when cash is received on a cash basis method-cost recovery. A loan receivable may be returned to accrual status after all of the borrower’s delinquent balances of principal and interest have been settled, and the borrower remains current for an appropriate period. The outstanding balance of nonaccrual loans as of December 31, 2017 and 2016 were US\$3,996 and US\$3,313, respectively.

A summary of the Company’s loans receivables is presented as follows:

	As of December 31, 2016 US\$'000	As of December 31, 2017 US\$'000
Personal loans	62,510	149,028
Total Loans receivable	<u>62,510</u>	<u>149,028</u>
Allowance for loan losses		
Individually assessed	541	574
Collectively assessed	3,195	4,342
Loans receivable, net	<u>58,774</u>	<u>144,112</u>
Current portion	41,966	129,438
Non-current portion	16,808	14,674

For the years ended December 31, 2015, 2016 and 2017, a provision of US\$3,656, US\$3,736 and US\$4,916, respectively, were charged to the consolidated statements of comprehensive income (loss) while no charge-offs against provisions occurred.

FANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands of United States Dollars (“US\$”), except for number of shares and per share data)

7. LOANS RECEIVABLE (continued)

Analysis of loans by credit quality indicator

The following table summarizes the Company’s loan portfolio by credit quality indicator as of December 31, 2017 and 2016, respectively:

Internal credit risk rating	As of December 31, 2016		%	As of December 31, 2017	
	US\$			US\$	
Pass	59,196	94.7	144,908	97.2	
Special attention	1,158	1.9	763	0.5	
Non-performing	2,156	3.4	3,357	2.3	
Total	62,510	100	149,028	100	

As of December 31, 2016 and 2017, non-performing loans of US\$2,156 and US\$3,357, respectively, were provided for as they were not secured by collateral.

The following tables represent the aging of loans receivable by portfolio segment as of December 31, 2016 and 2017, respectively:

As of December 31, 2017	90-179 days past due US\$'000	180-365 days past due US\$'000	Over 1 year past due US\$'000	Total US\$'000	Current US\$'000	Total loans US\$'000
Personal loans	245	180	3,445	3,870	145,158	149,028
Total	245	180	3,445	3,870	145,158	149,028

As of December 31, 2016	90-179 days past due US\$'000	180-365 days past due US\$'000	Over 1 year past due US\$'000	Total US\$'000	Current US\$'000	Total loans US\$'000
Personal loans	593	1,390	1,206	3,189	59,321	62,510
Total	593	1,390	1,206	3,189	59,321	62,510

FANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands of United States Dollars (“US\$”), except for number of shares and per share data)

7. LOANS RECEIVABLE (continued)

Allowance for loan losses

The following tables present the activity in the allowance for loan losses in loans receivable by loan portfolio as of and for the year ended December 31, 2015, 2016 and 2017, respectively:

For the year ended December 31, 2017	Personal
Beginning balance	3,736
Provision	1,180
Write offs	-
Ending balance	<u>4,916</u>
Ending balance: individually evaluated for impairment	574
Ending balance: collectively evaluated for impairment	4,342
Loans	
Of which individually evaluated for impairment	4,477
Of which collectively evaluated for impairment	144,551
For the year ended December 31, 2016	Personal
Beginning balance	3,656
Provision	80
Write offs	-
Ending balance	<u>3,736</u>
Ending balance: individually evaluated for impairment	541
Ending balance: collectively evaluated for impairment	3,195
Loans	
Of which individually evaluated for impairment	4,570
Of which collectively evaluated for impairment	57,940

FANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands of United States Dollars (“US\$”), except for number of shares and per share data)

8. PROPERTY AND EQUIPMENT, NET

Property and equipment consisted of the following:

	<u>As of December 31,</u>	
	<u>2016</u>	<u>2017</u>
	US\$	US\$
Buildings	263,392	576,467
Office equipment	40,288	24,892
Motor vehicles	1,531	1,408
Leasehold improvement	21,627	16,244
Land	37,421	50,731
Total	364,259	669,742
Less: Accumulated depreciation	(62,759)	(78,187)
Construction in progress	18,397	30,590
	<u>319,897</u>	<u>622,145</u>

Depreciation expenses were US\$14,668, US\$25,004 and US\$27,961 for the years ended December 31, 2015, 2016 and 2017, respectively.

The Company is still in the process of obtaining the property ownership certificates for certain buildings with aggregate net carrying values of US\$15,972. As the transfer of ownership of the buildings have been legally registered with the applicable government authority and the purchase consideration has been fully paid by the Company, the Company has the ability to obtain and control the future economic benefits of the buildings. As a result, these buildings were recognized as assets in the consolidated balance sheets as of December 31, 2016 and 2017.

The Company capitalized interest costs as a component of the cost of construction in progress as follows:

	<u>As of December 31,</u>	
	<u>2016</u>	<u>2017</u>
	US\$	US\$
Interest cost capitalized	-	756
Interest cost charged against income	20,791	16,153
Total interest cost incurred	20,791	16,909

9. DEPOSIT FOR NON-CURRENT ASSETS

Deposit for non-current assets consisted of the following:

	<u>As of December 31,</u>	
	<u>2016</u>	<u>2017</u>
	US\$	US\$
Buildings	239,827	55,364
Others	885	3,358
Total	240,712	58,722

As of December 31, 2017, deposits for buildings represent interest-free non-refundable deposits for the purchases of certain office buildings: (i) an office building in Wuhan in the PRC for US\$41,107; (ii) two floors of an office building in Chongqing, in the PRC for US\$13,758; and (iii) one floor of an office building in Changzhou, Jiangsu province in the PRC for US\$499.

As of December 31, 2016, deposits for buildings represent interest-free non-refundable deposits for the purchases of certain office buildings: (i) an office building in Beijing in the PRC for US\$224,507; (ii) two floors of an office building in Chongqing, in the PRC for US\$13,084; and (iii) two floors of an office building in Changzhou, Jiangsu province in the PRC for US\$2,236.

As of December 31, 2017, deposit for non-current assets of US\$41,107 have been pledged for bank borrowings of US\$18,403 from financial institutions in China.

As of December 31, 2016, deposit for non-current assets of US\$224,506 have been pledged for bank borrowings of US\$87,920 from financial institutions in China.

FANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands of United States Dollars (“US\$”), except for number of shares and per share data)

10. OTHER NON-CURRENT ASSETS

Other non-current assets consisted of the following:

	As of December 31,	
	2016	2017
	US\$	US\$
Rental and other deposits	4,933	852
Rental deposits paid to lessors for sublease services	1,711	409
Others	747	765
	7,391	2,026

11. SHORT-TERM AND LONG-TERM LOANS

Short-term and long-term loans consisted of the following:

	As of December 31,	
	2016	2017
	US\$	US\$
Short-term loans	212,734	236,985
Long-term loans	65,190	114,109

Short-term loans as of December 31, 2016 and 2017 represents US\$ denominated bank borrowings of US\$190,000 and US\$190,000, respectively, obtained from financial institutions in the United States and the current-portion of long-term loans of US\$22,734 and US\$46,985, respectively. The short-term loan of US\$190,000 are repayable on demand and bear interest rates of three month London Interbank Offered Rate (“LIBOR”) plus 1.25% (2016: LIBOR plus 1.0%). The short-term bank borrowings were secured by RMB denominated bank deposits placed with financial institutions in the PRC of US\$211,084 and US\$223,002 as of December 31, 2016 and 2017, respectively, and were classified as “restricted cash, current” on the consolidated balance sheets. The weighted average interest rate for the short-term borrowings for the years ended December 31, 2016 and 2017 was approximately 1.4% and 2.32%, respectively.

The long-term loan of US\$32,112 as of December 31, 2017 represents US\$ denominated bank borrowing obtained from financial institutions in the United States. The long-term loan is repayable by installments from October 6, 2017 to November 11, 2027 and bears interest rate of 4.1% for the first 3 years; thereafter the interest rate will be floating at Industrial and Commercial Bank of China (USA) NA Prime plus 1.0%. US\$770 of the bank loan was re-classified to short term loans because it was repayable within twelve months. The loan is secured by land and building in the United States with carrying value of US\$58,108 as of December 31, 2017. Certain bank accounts were funded from the loan proceeds and were restricted for use to pay for the tenant improvements of the collateral property and the loan payments. As of December 31, 2017, the balance of the reserve accounts of US\$7,843 was classified as “restricted cash, non-current” on the consolidated balance sheets.

The long-term loan of US\$26,809 as of December 31, 2017 represents US\$ denominated bank borrowing obtained from financial institutions in China. The long-term loan is repayable on demand and bear interest rates of three month LIBOR plus 2.8%. The bank borrowing was secured by RMB denominated bank deposits placed with financial institutions in the PRC of US\$32,139 as of December 31, 2017, and was classified as “restricted cash, non-current” on the consolidated balance sheets.

The long-term loans of US\$87,920 and US\$83,771 as of December 31, 2016 and 2017 represent RMB denominated bank borrowings from financial institutions in China for the purchase of buildings in Beijing, PRC. The long-term loans are repayable by installments from September 23, 2016 to September 22, 2026 and bear interest rate of 4.9%. As of December 31, 2017, US\$43,333 of the bank loans were re-classified to short term loans because i) US\$31,904 was repayable on demand as the Company did not meet certain loan covenants, and ii) US\$11,429 was repayable within twelve months. The loans were secured by building and construction in progress in the PRC with carrying value of US\$237,055 as of December 31, 2017. As of December 31, 2016, US\$22,730 of the bank loans were re-classified to short term loans because i) US\$13,420 was repayable on demand as the Company did not meet certain loan covenants, and ii) US\$9,310 was repayable within twelve months.

The long-term loan of US\$18,403 as of December 31, 2017 represents RMB denominated bank borrowings from financial institutions in China for the purchase of buildings in Wuhan, PRC. The long-term loan is repayable by installments from March 21, 2017 to March 21, 2027 and bears interest rate of 4.9%. US\$2,882 of the bank loan was re-classified to short term loans because it was repayable within twelve months. The loan was secured by building and deposit for non-current assets in the PRC with carrying value of US\$46,429 as of December 31, 2017.

FANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands of United States Dollars (“US\$”), except for number of shares and per share data)

12. ACCRUED EXPENSES AND OTHER LIABILITIES

Accrued expenses and other liabilities consisted of the following:

	<u>As of December 31,</u>	
	<u>2016</u>	<u>2017</u>
	US\$	US\$
Payroll and welfare benefit	18,467	19,152
Other taxes and surcharges payable (1)	39,824	38,669
Accrued unrecognized tax benefits and related interest and penalties Note 16	121,856	-
Amounts payable to employees	2,162	2,794
Amounts payable to sales and marketing agents	74,669	46,529
Amounts due to foremen and suppliers of decoration services	4,872	3,693
Amounts due to Tianxiajin investors	1,530	357
Down payments collected on behalf of secondary home sellers	3,116	1,806
Cash incentives payable to home buyers (2)	14,271	12,018
Amounts payable for purchase of treasury stock (3)	9,861	-
Others	27,911	33,781
	<u>318,539</u>	<u>158,799</u>

(1) Other taxes and surcharges payable consist of VAT, cultural construction fee (“CCF”), city construction tax (“CCT”) and withholding individual income tax (“IIT”).

(2) Cash incentives payable to home buyers, are payable when home buyers successfully purchase new properties through the Company’s platform and successfully registers on the Company’s website.

(3) This amount represents the purchase of treasury stock. The balance was subsequently settled in January 2017.

FANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands of United States Dollars (“US\$”), except for number of shares and per share data)

13. CUSTOMERS’ REFUNDABLE FEES

Roll-forward of customers’ refundable fees:

	As of December 31,	
	2016	2017
	US\$	US\$
Balance at beginning of year	59,107	28,630
Cash received from customers during the year	371,837	69,148
Revenue recognized during the year	(272,083)	(30,998)
Payments to sales and marketing agents during the year	(33,251)	(36,836)
Refunds paid during the year	(90,061)	(23,941)
Amounts payable to real estate developers	(4,674)	-
Foreign currency translation adjustments	(2,245)	1,067
Balance at end of year	<u>28,630</u>	<u>7,070</u>

14. CONVERTIBLE SENIOR NOTES

On December 4, 2013, the Company issued US\$400,000, including an US\$50,000 overallotment option (the “Overallotment Option”) which was exercised on January 3, 2014, of convertible senior notes which will mature on December 15, 2018 (collectively the “December 2018 Notes”). The total net proceeds from the December 2018 Notes were US\$390,455. The investors may convert the December 2018 Notes to Class A ordinary shares at any time in whole or in part at specified conversion prices. The conversion rate for the December 2018 Notes is initially 9.6839 ADSs per US\$1,000 principal amount of notes (equivalent to an initial conversion price of approximately US\$103.26 per ADS), subject to adjustment as described in the respective Subscription Agreement.

Investors of the December 2018 Notes had the right to require the Company to repurchase for cash all or part of their notes on December 15, 2016, and this was exercised accordingly. The Company repurchased a total of US\$394,300 of the Notes, which represents approximately 98.6% of the outstanding principal amount of the Notes prior to such repurchase. As of December 31, 2017, the remaining balance of US\$5,700 was reclassified to convertible senior notes-current, as it is repayable on December 15, 2018.

On September 24, 2015, the Company issued (i) 3,418,803 Class A ordinary shares for US\$100,000 and (ii) US\$100,000 of convertible notes which will mature on September 24, 2022 (the “September 2022 Notes”) to Safari Group. The Safari Group is beneficially owned by the Carlyle Group (“Carlyle”) (72%) and Ateefa Limited, a company owned by Vincent Tianquan Mo (28%). A representative of Carlyle is entitled to hold a seat on the Company’s board of directors so long as Carlyle continues to beneficially own at least 1% of the Company’s total outstanding share capital calculated on a fully-diluted basis. The total net proceeds from the Class A ordinary shares and the September 2022 Notes were US\$199,645. The investors may convert the September 2022 Notes to Class A ordinary shares at any time in whole or in part at specified conversion prices. The conversion rate for the September 2022 Notes is initially 27.9086 Class A Shares per US\$1,000 principal amount of the Note (equivalent to an initial conversion price of approximately US\$35.83 per Class A Share), subject to adjustment as described in the respective Subscription Agreement.

On November 4, 2015, the Company issued (i) an aggregate of 8,436,581 Class A shares for a total consideration of US\$246,770 and (ii) US\$200,000 of convertible notes which will mature on November 3, 2022 (the “November 2022 Notes”). The total net proceeds from the Class A ordinary shares and the November 2022 Notes were US\$446,059. The investors may convert the November 2022 Notes to Class A ordinary shares at any time in whole or in part at specified conversion prices. The conversion rate for the November 2022 Notes is initially 27.9086 Class A Shares, representing Class A ordinary shares at par value HK\$1.00 per share, per US\$1,000 principal amount of the Note (equivalent to an initial conversion price of approximately US\$35.83 per Class A Share), subject to adjustment as described in the respective Subscription Agreement.

The December 2018 Notes, the September 2022 Notes and the November 2022 Notes bear interest at the rate of 2.00%, 1.50% and 1.50% per annum, respectively, payable semi-annually. The December 2018 Notes, September 2022 Notes and November 2022 Notes are collectively referred to as the “Notes”.

FANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands of United States Dollars (“US\$”), except for number of shares and per share data)

14. CONVERTIBLE SENIOR NOTES (continued)

The Company intends to use the proceeds of the Notes for general corporate purposes, including development of new products and services, working capital, capital expenditures, business expansion and potential business acquisitions, technologies and/or products.

The Notes are senior unsecured obligations and rank (i) senior in right of payment to any of the Company’s indebtedness that is expressly subordinated in right of payment to the Notes; (ii) equal in right of payment to any of the Company’s unsecured indebtedness that is not so subordinated; (iii) effectively junior in right of payment to any of the Company’s secured indebtedness to the extent of the value of the assets securing such indebtedness; and (iv) structurally junior to all indebtedness and other liabilities of the subsidiaries or consolidated controlled entities of the Company.

The issuance costs of US\$9,545, US\$355 and US\$711 of the December 2018 Notes, the September 2022 Notes and the November 2022 Notes, respectively, were amortized as interest expense using the effective interest rate method through the maturity date of the respective Notes.

The principal amount and unamortized discount and debt issuance costs as of December 31, 2016 and 2017 were as follows:

	As of December 31,	
	2016	2017
	US\$	US\$
Principal amount	305,700	305,700
Unamortized discount and debt issuance costs	(10,432)	(8,635)
	295,268	297,065

The effective interest rate was 2.86%, 1.56% and 1.56% for the December 2018 Notes, the September 2022 Notes and the November 2022 Notes, respectively. For the years ended December 31, 2015, 2016 and 2017, the Company recognized interest expense related to the Notes of US\$8,904, US\$17,001 and US\$6,395, respectively.

FANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands of United States Dollars (“US\$”), except for number of shares and per share data)

14. CONVERTIBLE SENIOR NOTES (continued)

Accounting treatment

The Notes were originally recorded as long-term debt. The Company evaluated the embedded conversion features contained in the Notes in accordance with ASC 815-40-15 and ASC 815-40-25-7 to ASC 815-40-25-35 to determine if the conversion options require bifurcation.

The conversion option was not required to be bifurcated because the conversion options of the December 2018 Notes and the September 2022 Notes are indexed to the Company’s ADSs and Class A ordinary shares, respectively, and meet all additional conditions for equity classification. Since the conversion options were not required to be bifurcated, the Company then determined if there were any beneficial conversion features (“BCF”) in accordance with ASC 470-20. The Company assessed the embedded conversion option feature of the December 2018 Notes and the September 2022 Notes and concluded that there is no BCF because the effective conversion price of the December 2018 Notes and the September 2022 Notes exceeded the fair value of the Company’s ADSs and Class A ordinary shares at their respective commitment dates. For the November 2022 Notes, the Company recognized a BCF of US\$12,113 through a credit to additional paid-in capital because the fair value per Class A ordinary share of US\$38.00 exceeded the most favorable conversion price of US\$35.83 at the commitment date on November 4, 2015. The resulting discount of US\$12,113 to the November 2022 Notes is then accreted to the redemption value as interest expense using the effective interest method through the consolidated statements of comprehensive income (loss) over the term of the November 2022 Notes.

In connection with the make-whole fundamental change provision within the Notes agreements, the number of ADSs and Class A ordinary shares issuable upon conversion of the Notes will be increased if the Holders decide to convert. As (i) the fair value of the ADSs into which the December 2018 Notes is convertible plus the make-whole ADSs and (ii) the fair value of the Class A ordinary shares into which the September 2022 Notes and the November 2022 Notes are convertible plus the make-whole Class A ordinary shares, respectively, do not approximate the fair value at the settlement date, the make-whole features are not indexed to the Company’s ADSs for the December 2018 Notes and Class A ordinary shares for the September 2022 and the November 2022 Notes, and are required to be bifurcated. The fair values of the make-whole features were insignificant for the years ended December 31, 2015, 2016 and 2017.

The Company evaluated the embedded contingent redemption features contained in the Notes in accordance with ASC 815. The contingent redemption features were not required to be bifurcated because they are considered to be clearly and closely related to the debt host, as the Notes were not issued at a substantial discount and are puttable at par.

The Company evaluated the contingent interest features contained in the Notes in accordance with ASC 815 to determine if these features require bifurcation. Certain embedded contingent interest features are not considered to be clearly and closely related to the debt host and met the definition of a derivative. Accordingly, these embedded contingent interest features were bifurcated from the Notes on the issuance date, and their fair values were insignificant for the years ended December 31, 2015, 2016 and 2017. For the embedded contingent interest features not bifurcated from the December 2018 Notes, the September 2022 Notes and the November 2022 Notes, the Company determined whether the additional interest payments need to be accrued as a liability in accordance with ASC 450. Since the likelihood of occurrence of such default events is remote, the Company determined that a liability was not probable and no accrual was made as of December 31, 2016 and 2017. The Company will continue to assess the accrual for these additional interest payment liabilities at each reporting date.

FANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands of United States Dollars (“US\$”), except for number of shares and per share data)

14. CONVERTIBLE SENIOR NOTES (continued)

As of December 31, 2017, aggregate future principal payments for long-term debt, including short-term and long-term loans (Note 11) and the convertible senior notes, were as follows:

	US\$
2018	52,685
2019	35,296
2020	8,488
2021	8,488
2022 and thereafter	361,837
	466,794

15. SHAREHOLDERS’ EQUITY

Ordinary Shares

Upon completion of the Company’s initial public offering (“IPO”) in September 2010, the Company’s ordinary shares were converted into 50,767,426 Class A ordinary shares and 25,298,329 Class B ordinary shares. The Memorandum and Articles of Association were amended and restated such that the authorized share capital consisted of 600,000,000 ordinary shares at a par value of HK\$1.00 per share.

In 2015, the Company completed various follow-on offerings which resulted in 70,736,679 Class A ordinary shares issued and outstanding as of December 31, 2015.

The rights of the holders of Class A and Class B ordinary shares are identical, except with respect to voting rights. Each Class A ordinary share is entitled to one vote per share whereas each Class B ordinary share is entitled to 10 votes per share. Each Class B ordinary share is convertible into one Class A ordinary share at any time by its holder, but Class A ordinary shares are not convertible into Class B ordinary shares under any circumstances. Upon any transfer of Class B ordinary shares by a Class B ordinary shareholder to any person or entity which is not an affiliate of such holder, such Class B ordinary shares will be automatically and immediately converted into the equal number of Class A ordinary shares.

No class B ordinary shares were converted into Class A ordinary shares for the years ended December 31, 2015, 2016 and 2017.

Treasury stock

Treasury stock represents shares repurchased and held by the Company. Treasury stock is accounted for under the cost method. For the year ended December 31, 2016, under the repurchase plan, the Company had repurchased an aggregate of 7,065,058 Class A ordinary shares on the open market for a total cash consideration of US\$136,615. For the year ended December 31, 2017, no ordinary shares were repurchased. The repurchased shares are classified as “treasury stock” in shareholders’ equity on the Company’s consolidated balance sheets.

Restricted net assets

The Company’s ability to pay dividends is primarily dependent on the Company receiving distributions of funds from its subsidiaries. Relevant PRC statutory laws and regulations permit payments of dividends by the Company’s PRC subsidiaries only out of their retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. The results of operations reflected in the financial statements prepared in accordance with U.S. GAAP differ from those reflected in the statutory financial statements of the Company’s PRC subsidiaries. On February 10, 2015, the Company’s board of directors declared the distribution of dividends to the Company’s ordinary shareholders in the amount of US\$82,751. As of December 31, 2015, all dividends declared had been paid.

FANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands of United States Dollars (“US\$”), except for number of shares and per share data)

15. SHAREHOLDERS’ EQUITY (continued)

Restricted net assets (continued)

In accordance with the PRC Regulations on Enterprises with Foreign Investment and its articles of association, a foreign invested enterprise established in the PRC is required to provide certain statutory reserves, namely general reserve fund, the enterprise expansion fund and staff welfare and bonus fund which are appropriated from net profit as reported in the enterprise’s PRC statutory accounts. A foreign invested enterprise is required to allocate at least 10% of its annual after-tax profit to the general reserve until such reserve has reached 50% of its respective registered capital based on the enterprise’s PRC statutory accounts. Appropriations to the enterprise expansion fund and staff welfare and bonus fund are at the discretion of the board of directors for all foreign invested enterprises. The aforementioned reserves can only be used for specific purposes and are not distributable as cash dividends. The WOFEs were established as foreign invested enterprises and therefore are subject to the above mandated restrictions on distributable profits.

Additionally, in accordance with the Company Law of the PRC, a domestic enterprise is required to provide a statutory common reserve of at least 10% of its annual after-tax profit until such reserve has reached 50% of its respective registered capital based on the enterprise’s PRC statutory accounts. A domestic enterprise is also required to provide a discretionary surplus reserve, at the discretion of the board of directors, from the profits determined in accordance with the enterprise’s PRC statutory accounts. The aforementioned reserves can only be used for specific purposes and are not distributable as cash dividends. The PRC Domestic Entities and the PRC Domestic Entities’ subsidiaries were established as domestic invested enterprises and therefore are subject to the above mentioned restrictions on distributable profits.

As a result of these PRC laws and regulations that require annual appropriations of 10% of after-tax income to be set aside prior to payment of dividends as general reserve fund, the Company’s PRC subsidiaries are restricted in their ability to transfer a portion of their net assets to the Company. Amounts restricted include paid-in capital, statutory reserve funds and net assets of the Company’s PRC subsidiaries, as determined pursuant to PRC generally accepted accounting principles, totaling US\$742,676 and US\$983,333 as of December 31, 2016 and 2017, respectively. Therefore, in accordance with Rules 504 and 4.08(e)(3) of Regulation S-X, the condensed parent company only financial statements as of December 31, 2016 and 2017 and for each of the three years in the period ended December 31, 2017 are disclosed in Note 24.

FANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands of United States Dollars (“US\$”), except for number of shares and per share data)

16. TAXATION

Cayman Islands

Under the current laws of the Cayman Islands, the Company and subsidiaries incorporated in the Cayman Islands are not subject to tax on income or capital gains. In addition, upon payments of dividends by the Company to its shareholders, no Cayman Islands withholding tax will be imposed.

British Virgin Islands (“BVI”)

Under the current laws of the BVI, subsidiaries incorporated in the BVI are not subject to tax on income or capital gains. In addition, upon payments of dividends by these companies to their shareholders, no BVI withholding tax will be imposed.

Hong Kong

Under the Hong Kong tax laws, subsidiaries in Hong Kong are subject to the Hong Kong profits tax rate at 16.5% and they are exempted from income tax on their foreign-derived income and there are no withholding taxes in Hong Kong on remittance of dividends. No provision for Hong Kong profits tax has been made in the financial statements as the subsidiaries in Hong Kong have no assessable profits for the three years ended December 31, 2017.

United States of America

On December 22, 2017, the Tax Act was enacted and contains significant changes to U.S. income tax law. Effective in 2018, the Tax Act reduces the U.S. statutory tax rate from 35% to 21% and creates new taxes focused on foreign-sourced earnings and related-party payments, including the creation of the base erosion anti-abuse tax and a new tax on global intangible low-taxed income (“GILTI”).

The Securities and Exchange Commission (SEC) staff issued SAB 118 on December 22, 2017, which allows companies to record provisional amounts during a measurement period not to extend beyond one year of the enactment date.

The Tax Act reduces the U.S. statutory tax rate from 35% to 21% for years after 2017. Accordingly, the Company re-measured its deferred taxes as of December 31, 2017, to reflect the reduced rate that will apply in future periods when these deferred taxes are settled or realized. As Best Work Holdings (New York) LLC. is loss making since incorporated there for the Company recognized a deferred tax asset of US\$13,834 to reflect the reduced U.S. tax rate and full valuation allowance is provided and corresponding remeasurement were made to unrecognized tax benefit and valuation allowance.

Singapore

A subsidiary was incorporated in Singapore in November 2014 is subjected to tax rate at 8.5% and does not conduct any substantive operations of its own. No provision for Singapore profits tax has been made in the financial statements as this entity has no assessable profits for the three years ended December 31, 2017.

FANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands of United States Dollars (“US\$”), except for number of shares and per share data)

16. TAXATION (continued)

China

In March 2007, a new enterprise income tax law (the “New EIT Law”) in the PRC was enacted which was amended in February 2017. The New EIT Law applies a unified 25% enterprise income tax (“EIT”) rate to both foreign invested enterprises and domestic enterprises, unless a preferential EIT rate is otherwise stipulated. On April 14, 2008, relevant governmental regulatory authorities issued the Administrative Measures for certification of High and New Technology Enterprises which was amended in January 2016 High and New Technology Enterprise (“HNTE”) status under the New EIT Law which would entitle qualified and approved entities to a favorable EIT tax rate of 15%. In April 2009 and June 2017 the State Administration for Taxation (“SAT”) issued Circular No. 203 (“Circular 203”) and SAT Announcement [2017] No. 24 (“Announcement 24”), stipulating that entities which qualified for the HNTE status should apply with in-charge tax authorities to enjoy the reduced EIT rate of 15% provided under the New EIT Law starting from the year when the new HNTE certificate becomes effective. The HNTE certificate is effective for a period of three years and can be renewed for another three years. Subsequently, an entity needs to re-apply for the HNTE status in order to be able to enjoy the preferential tax rate of 15%.

The Company obtained new HNTE certificates for its various subsidiaries i.e. SouFun Media, Beijing Zhong Zhi Shi Zheng, SouFun Network, Beijing Technology, Beijing JTX Technology and Hong An Tu Sheng in November 2015. Therefore, these six subsidiaries can enjoy the preferential tax rate of 15% in years 2015, 2016 and 2017. The Company obtained new HNTE certificates for Beijing Tuoshi in December 2016. Therefore, Beijing Tuoshi can enjoy the preferential tax rate of 15% in years 2016, 2017 and 2018. The Company newly applied for the Xinjiang Huoerguosi Economic and Technological Development Zone tax preference status for Xinjiang Zhongzhi in 2017 and received the certificates in September 2017. Xinjiang Zhongzhi can enjoy the preferential tax rate of 0% in 4 years since 2017.

If any entities fail to maintain the HNTE qualification under the New EIT Law, they will no longer qualify for the preferential tax rate of 15%, which could have a material and adverse effect on the Company’s results of operations and financial position provided that they do not qualify for any other preferential tax treatment. Historically, the abovementioned PRC subsidiaries have successfully obtained or renewed the HNTE certificates when the previous certificates had expired.

Subsequent to government approval in May 2014, Beijing Li Man Wan Jia, Beijing Zhong Zhi Xun Bo and Beijing Hua Ju Tian Xia obtained the Software Enterprise status with effect from January 1, 2013. Accordingly, these three subsidiaries are entitled to the two-year EIT exemption for years 2013 and 2014 and a reduced EIT rate of 12.5% for years 2015, 2016 and 2017.

Moreover, the current EIT Law treats enterprises established outside of China with “effective management and control” located in the PRC as PRC resident enterprises for tax purposes. The term “effective management and control” is generally defined as exercising overall management and control over the business, personnel, accounting, properties, etc. of an enterprise. The Company, if considered a PRC resident enterprise for tax purposes, would be subject to the PRC EIT at the rate of 25% on its worldwide income for the period after January 1, 2008. As of December 31, 2016, the Company had not accrued for PRC tax on such basis. The Company will continue to monitor its tax status.

FANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands of United States Dollars (“US\$”), except for number of shares and per share data)

16. TAXATION (continued)

Income (loss) before income taxes consisted of:

	For the Years Ended December 31,		
	2015	2016	2017
	US\$	US\$	US\$
PRC	(5,008)	(136,773)	56,101
Non-PRC	(16,030)	(7,878)	(12,955)
	<u>(21,038)</u>	<u>(144,651)</u>	<u>43,146</u>

Income tax expenses (benefits) comprised:

	For the Years Ended December 31,		
	2015	2016	2017
	US\$	US\$	US\$
Current tax expense	26,456	27,685	21,759
Deferred tax benefit	(32,361)	(2,701)	(317)
	<u>(5,905)</u>	<u>24,984</u>	<u>21,442</u>

A reconciliation between the amount of income tax expenses (benefits) and the amount computed by applying the PRC statutory tax rate to income (loss) before income taxes was as follows:

	For the Years Ended December 31,		
	2015	2016	2017
	US\$	US\$	US\$
Income (loss) before income taxes	<u>(21,038)</u>	<u>(144,651)</u>	<u>43,146</u>
Income tax at applicable tax rate of 25%	(5,260)	(36,163)	10,786
Effect of international tax rate differences	847	(598)	472
Non-deductible expenses	2,145	24,135	7,360
Effect of tax holidays or preferential tax rates	(5,985)	(5,759)	(12,001)
Effect of tax rate changes	-	-	(1,725)
Investment basis difference in the PRC Domestic Entities	(335)	(2,757)	2,696
Withholding tax	(30,578)	-	-
Research and development super-deduction	(1,667)	-	-
Changes in valuation allowance	28,041	30,856	8,849
Unrecognized tax benefits	(8,133)	-	(4,302)
Changes in interest and penalties on unrecognized tax benefits	15,020	15,270	9,307
	<u>(5,905)</u>	<u>24,984</u>	<u>21,442</u>

FANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands of United States Dollars (“US\$”), except for number of shares and per share data)

16. TAXATION (continued)

A roll-forward of unrecognized tax benefits, exclusive of related interest and penalties, was as follows:

	As of December 31,		
	2015	2016	2017
	US\$	US\$	US\$
Balance at beginning of year	50,983	70,296	78,933
Increase relating to prior year tax positions	32,227	5,070	4,192
Increase relating to current year tax positions	5,124	4,769	10,666
Decrease relating to reversal of prior years' tax position	(14,059)	-	(14,102)
Decrease relating to expiration of applicable statute of limitations	(1,787)	-	(4,586)
Foreign currency translation adjustments	(2,192)	(1,202)	4,333
Balance at end of year	<u>70,296</u>	<u>78,933</u>	<u>79,436</u>

As of December 31, 2016 and 2017, the Company had recorded US\$121,856 and US\$144,915 as an accrual for unrecognized tax benefits and related interest and penalties. As of December 31, 2016 and 2017, unrecognized tax benefits of US\$67,346 and US\$77,561 respectively, would impact the effective tax rate if recognized. The final outcome of the tax uncertainty is dependent upon various matters including tax examinations, interpretation of tax laws or expiration of statute of limitations. However, due to the uncertainties associated with the status of examinations, including the protocols of finalizing audits by the relevant tax authorities, there is a high degree of uncertainty regarding the future cash outflows associated with these tax uncertainties. The amount of unrecognized tax benefits may change in the next twelve months, pending clarification of current tax law or audit by the tax authorities. However, a reliable estimate of the range of the possible change cannot be made at this time.

For the years ended December 31, 2015, 2016, and 2017, the Company recognized, US\$15,020, US\$15,270 and US\$9,593 in income tax expenses for interest and penalties related to uncertain tax positions. Accrued interest and penalties related to unrecognized tax benefits were US\$54,510 and US\$67,355 as of December 31, 2016 and 2017, respectively.

The Company's PRC entities have been subject to the New EIT Law since January 1, 2008. The PRC tax authorities, US tax authorities and Hong Kong tax authorities have up to five years, three years and six years, respectively, to conduct examinations of the Company's tax filings. Accordingly, the PRC subsidiaries' tax years 2012 through 2017, the US subsidiaries' tax years 2015 through 2017 and the Hong Kong subsidiaries' tax years 2012 through 2017 remain open to examination by the respective taxing jurisdictions.

FANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands of United States Dollars (“US\$”), except for number of shares and per share data)

16. TAXATION (continued)

The aggregate amount and per share effect of tax holidays and preferential tax rates were as follows:

	For the Years Ended December 31,		
	2015	2016	2017
	US\$	US\$	US\$
The aggregate amount	(5,985)	(5,759)	(12,001)
The aggregate effect on basic and diluted earnings per share for Class A and Class B ordinary shares:			
-Basic	0.07	0.06	0.14
-Diluted	0.07	0.06	0.13

The components of deferred taxes were as follows:

	As of December 31,	
	2016	2017
	US\$	US\$
Deferred tax assets		
Net operating losses	63,227	74,040
Impairment of funds receivable	348	-
Impairment of loans receivable	65	274
Overcharged advertising and promotion fee	90	87
Fix assets depreciation		49
Share based compensation	5,351	6,167
Less: Valuation allowance	(64,166)	(73,015)
Total deferred tax assets, net	4,915	7,602
Deferred tax liabilities		
Investment basis in the PRC entities	(57,413)	(61,961)
BaoAn Acquisition – Property	(13,011)	(13,309)
Available-for-sale securities		(51,096)
Trading securities		(133)
Interest capitalization		(142)
Deferred tax liabilities	(70,424)	(126,641)

As of December 31, 2017, the Company had net operating losses from several of its PRC entities of US\$4,100, which can be carried forward to offset future taxable profit. The net operating loss carryforwards as of December 31, 2017 will expire in years 2018 to 2022 if not utilized.

FANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands of United States Dollars (“US\$”), except for number of shares and per share data)

16. TAXATION (continued)

Deferred tax liabilities arising from undistributed earnings

As of December 31, 2016 and 2017, a portion of the aggregate undistributed earnings of the PRC subsidiaries that were available for distribution to non-PRC parent companies was not considered to be indefinitely reinvested under ASC 740-30, “Income Taxes: Other Consideration or Special Areas”. In accordance with the New EIT Law, a withholding income tax will be imposed on the PRC subsidiaries when dividends are distributed to their non-PRC parent companies. The withholding tax rate is 10% unless a foreign investor’s tax jurisdiction has a tax treaty with the PRC that provides for a lower withholding tax rate and the foreign investor is recognized as the beneficial owner of the income under the relevant tax rules. Deferred tax liabilities amounting to US\$28,716 and US\$28,716 were provided for the withholding tax of the PRC entities as of December 31, 2016 and 2017, respectively.

The deferred tax liabilities arising from the aggregate undistributed earnings of the PRC Domestic Entities and the PRC Domestic Entities’ subsidiaries that are available for distribution to the PRC tax resident parent companies, that is, the WOFEs, amounted to US\$29,297 and US\$33,246 as of December 31, 2016 and 2017, respectively.

As of December 31, 2016 and 2017, the Company did not provide for deferred tax liabilities and foreign withholding taxes on certain undistributed earnings of its PRC subsidiaries, PRC Domestic Entities and PRC Domestic Entities’ subsidiaries that were available for distribution to non-PRC parent companies on the basis of its intent to permanently reinvest these foreign subsidiaries’ earnings. The cumulative amount of such temporary difference was US\$309,641 and US\$338,695 as of December 31, 2016 and 2017, respectively. The amount of the unrecognized deferred tax liability for temporary differences related to investments in PRC subsidiaries, PRC Domestic Entities and PRC Domestic Entities’ subsidiaries that are essentially permanent in duration was US\$30,964 and US\$ 33,869 as of December 31, 2016 and 2017, respectively.

FANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands of United States Dollars (“US\$”), except for number of shares and per share data)

17. SHARE-BASED PAYMENTS

Stock related award incentive plan of 1999

On September 1, 1999, the Company’s shareholders approved the 1999 Stock Related Award Incentive Plan (the “1999 Plan”). Under the 1999 Plan, the Company may issue up to 12% of the fully diluted ordinary shares of the Company to its directors and employees. The purpose of the 1999 Plan is to provide additional incentive and motivation to its directors and employees, through an equity interest in the Company, to work towards increasing the value of the Company. The 1999 Plan provides for accelerated vesting, subject to certain conditions, if there is a change in control. The 1999 Plan has no stated expiry date.

The exercise price, vesting and other conditions of individual awards are determined by the executive chairman of the board of directors. The awards are typically subject to a three-year to a four-year service vesting condition and expire 10 or 15 years after the grant date. In addition, the grantee must return all awards and any proceeds from the sale of the awards if he/she violates certain provisions including a non-compete condition for a period of 2 years after cessation of employment with the Company. The non-compete condition does not give rise to an in-substance service condition.

Starting from December 31, 2006, the Company awarded Special Stock Options to its employees and directors. Terms for Special Stock Options are the same as other option grants except the underlying ordinary shares to be received upon exercise of the vested options do not have any entitlement to vote. Every two Special Stock Options is exercisable into one Class A ordinary share. The Special Stock Options have been accounted for as equity awards and measured at the date on which the terms of the grant was communicated to the grantee. These Special Stock Options vest 10% after the first year of service, 20% after the second year of service, 40% after the third year of service and 30% after the fourth year of service. The contractual life of the Special Stock Option is ten years from the date of grant.

Stock related award incentive plan of 2010

On August 4, 2010, the Company’s board of directors and shareholders approved the 2010 Stock Related Award Incentive Plan (the “2010 Plan”). Under the 2010 Plan, the Company may issue up to 10% of the total number of ordinary shares, including ordinary shares issuable upon conversion of any preferred shares to its directors and employees. The purpose of the 2010 Plan was to recognize and acknowledge the contributions made to the Company by eligible employees and to promote the success of the Company’s business. The 2010 Plan allows the board of directors, or its designated committee, to establish the performance criteria when granting stock options on the basis of any one of, or combination of, increase in share price, earnings per share, total shareholder return, return on equity, return on assets, return on investment, net operating income, cash flow, revenue, economic value added, personal management objectives, or other measures of performance selected by the Company’s board of directors, or its designated committee. Partial achievement of the specified criteria may result in a vesting corresponding to the degree of achievement as specified in the detail rules.

The exercise price, vesting and other conditions of individual awards are determined by the executive chairman of the board of directors, except for awards to officers which are determined by the board of directors or the compensation committee. The awards are typically subject to a four-year service vesting condition and multiple performance conditions with a contractual life of ten years. In addition, the grantee must return all awards and any proceeds from the sale of the awards if he/she violates certain provisions.

FANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands of United States Dollars (“US\$”), except for number of shares and per share data)

17. SHARE-BASED PAYMENTS (continued)

Stock related award incentive plan of 2015

On June 4, 2015, the Company’s board of directors and shareholders approved the 2015 Stock Related Award Incentive Plan (the “2015 Plan”). Under the 2015 Plan, the Company may issue up to 1.5% of the total number of ordinary shares, including ordinary shares issuable upon conversion of any preferred shares to its directors and employees. The purpose of the 2015 Plan was to recognize and acknowledge the contributions made to the Company by eligible employees and to promote the success of the Company’s business. The 2015 Plan allows the board of directors, or its designated committee, to establish the performance criteria when granting stock options on the basis of any one of, or combination of, increase in share price, earnings per share, total shareholder return, return on equity, return on assets, return on investment, net operating income, cash flow, revenue, economic value added, personal management objectives, or other measures of performance selected by the Company’s board of directors, or its designated committee. Partial achievement of the specified criteria may result in a vesting corresponding to the degree of achievement as specified in the detail rules.

The exercise price, vesting and other conditions of individual awards are determined by the executive chairman of the board of directors, except for awards to officers which are determined by the board of directors or the compensation committee. The awards are typically subject to a four-year service vesting condition and multiple performance conditions with a contractual life of ten years. In addition, the grantee must return all awards and any proceeds from the sale of the awards if he/she violates certain provisions.

On August 29, 2017(the “Replacement Date”), the Company’s board of directors approved to replace 1,377,730 share options granted during the years ended December 31, 2015 and 2016 under the 2015 Plan to 200 employees with 153,036 options and 1,224,694 restricted shares (the “Replacement Awards”). The exercise price of 153,036 options was reduced from US\$27.2~30.0 per share to US\$18.1 per share. The replacement awards were subject to graded vesting over four years from the Replacement Date, in which 25% of the awards vest at the end of each of the next four years. The total incremental share-based compensation of US\$12,537 resulting from the modification is recognized ratably over the new requisite service period. The total unamortized share-based compensation of US\$7,447 resulting from the modification is recognized ratably over the original requisite service period.

Share options

A summary of the equity award activity under the 1999 Plan, 2010 Plan and 2015 Plan for the year ended December 31, 2017 was stated below:

Options Granted to Employees and Directors	Number of Shares (*)	Weighted-Average per Share Exercise Price	Weighted-Average Grant-date Fair Value per Share	Weighted Average Remaining Contractual Term (Years)		Aggregate Intrinsic Value
Outstanding, December 31, 2016	9,805,417	15.38	5.77	6.20	US\$	10,011
Granted (new options)	60,964	17.53	8.22			
Granted (replacement options)	153,036	18.10	8.45			
Forfeited (up to the replacement)	(235,194)	22.38	9.28			
Forfeited (after the replacement)	(586,874)	23.65	8.93			
Expired	(209,632)	27.89	8.25			
Exercised	(368,320)	11.92	4.59			
Replaced	(1,377,730)	28.92	9.02			
Outstanding, December 31, 2017	7,241,667	11.93	5.51	5.01	US\$	136,242
Vested and expected to vest at December 31, 2017	7,241,667	11.93	5.51	5.01	US\$	136,242
Exercisable at December 31, 2017	5,796,713	9.77	4.00	3.50	US\$	123,795

The aggregate intrinsic value in the table above represents the difference between the fair value of the Company’s ordinary share at December 31, 2017 and the exercise price.

The weighted average grant-date fair value per share of new options and replacement options granted for the year ended December 31, 2017 was US\$8.22 and US\$8.45, respectively. Total intrinsic value of options exercised for the years ended December 31, 2015, 2016 and 2017 was US\$12,853, US\$10,011 and US\$ 2,953, respectively.

FANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands of United States Dollars (“US\$”), except for number of shares and per share data)

17. SHARE-BASED PAYMENTS (continued)

As of December 31, 2017, there was US\$10,725 of unrecognized share-based compensation cost related to share options that are expected to be recognized over a weighted-average vesting period of 2.37 years.

The fair value for stock options granted during the year ended December 31, 2017 under the 2016 Plan was estimated using the Black-Scholes option pricing model. The volatility assumption was estimated based on the price volatility of the shares of the Company and comparable companies in the internet media business. The expected term was estimated based on the resulting output of the Black-Scholes option pricing model. The risk-free rates were based on the market yield of US Treasury Bonds and Notes with maturity terms equal to the expected term of the option awards. Forfeitures were estimated based on historical experience. The dividend yield of nil are based on the Company’s estimated dividend distribution for the stock options granted during the year ended December 31, 2017.

The assumptions used to estimate the fair values of the share options granted were as follows:

	For the Years Ended December 31, 2017
Risk-free interest rate	1.81% to 2.39%
Dividend yield	nil
Expected volatility range	46.62% to 61.24%
Weighted average expected life	6.25 to 6.35 years
Fair value of ordinary share	US\$14.25 to US\$17.55

Restricted Shares

A summary of the restricted shares for the year ended December 31, 2017 was stated below:

Restricted Shares Granted to Employees and Directors	Number of Shares (*)	Weighted- Average Grant-date Fair Value per Share
Unvested, December 31, 2016	-	-
Granted (new restricted shares)	427,125	17.55
Granted (replacement restricted shares)	1,224,694	17.55
Forfeited	(47,051)	17.55
Vested	-	-
Unvested, December 31, 2017	1,604,768	17.55

The weighted average grant-date fair value per share of restricted shares granted for the year ended December 31, 2017 was US\$ 17.55.

As of December 31, 2017, there was US\$17,714 of unrecognized share-based compensation cost related to restricted shares that are expected to be recognized over a weighted-average vesting period of 3.67 years.

Total share-based compensation expense of share-based awards granted to employees and directors was as follows:

	For the Years Ended December 31,		
	2015	2016	2017
	US\$	US\$	US\$
Cost of revenues	471	443	364
Selling expenses	446	512	479
General and administrative expenses	3,485	5,597	6,375
	<u>4,402</u>	<u>6,552</u>	<u>7,218</u>

FANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands of United States Dollars (“US\$”), except for number of shares and per share data)

18. RELATED PARTY TRANSACTIONS

a) Related Parties

Name of Related Parties	Relationship with the Company
Vincent Tianquan Mo	Executive chairman of the board of directors and chief executive officer
Richard Jiangong Dai	Director of the board up until February 25, 2016
Wall Street Global Training Center, Inc.	A company under the control of Vincent Tianquan Mo and two other independent directors
Beihai Silver Beach 1 Hotel and Property Management Company, Ltd. (“Beihai Silver Beach”)	A company under the control of Vincent Tianquan Mo
Che Tian Xia Company Ltd.	A company under the control of Vincent Tianquan Mo and Richard Jiangong Dai
Guangxi Wharton International Hotel (“Guangxi Wharton”)	A company under the control of Vincent Tianquan Mo
Research Center on Natural Conservation, Inc. (“Research Center”)	A company under the control of Vincent Tianquan Mo
Upsky Long Island Hotel LLC (“Upsky Long Island”)	A company under the control of Vincent Tianquan Mo
Upsky San Francisco Airport Hotel LLC (formerly known as “Crowne Plaza San Francisco-International Airport”) (“Upsky San Francisco”)	A company under the control of Vincent Tianquan Mo
Upsky Lighthouse Hotel LLC (“Upsky Lighthouse”)	A company under the control of Vincent Tianquan Mo
Nanning Xuyin Business Co., Ltd. (“Nanning Xuyin”)	A company under the control of Vincent Tianquan Mo
New York Military Academy	A company of which Vincent Tianquan Mo is a director

FANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands of United States Dollars (“US\$”), except for number of shares and per share data)

18. RELATED PARTY TRANSACTIONS (continued)

b) The Company had the following related party transactions for the years ended December 31, 2015, 2016 and 2017:

	<u>For the Years Ended December 31,</u>		
	<u>2015</u>	<u>2016</u>	<u>2017</u>
	US\$	US\$	US\$
Office building leased from:			
-Vincent Tianquan Mo	169	154	159
Management fee incurred:			
-Beihai Silver Beach	470	421	501
Hotel service fee incurred:			
- Beihai Silver Beach	-	113	-
- Upsky San Francisco	20	17	-
- Upsky Lighthouse	1	-	-
- Upsky Long Island	116	81	-
Training fee incurred			
- New York Military Academy	-	111	-

Free rental space to Wall Street Global Training Center, Inc.

Starting from 2011, the Company provided Wall Street Global Training Center, Inc. with office space of approximately 220 square feet in the Company’s building located in New York City, United States of America, free of charge. The estimated fair value of the free office space was insignificant for each of the years ended December 31, 2015, 2016 and 2017.

Office building leased from Vincent Tianquan Mo

The Company entered into an agreement with Vincent Tianquan Mo to lease a building owned by him for a 10-year period for nil consideration starting from March 1, 2012. The deemed rental expense of US\$169 and US\$154 and US\$159 the corresponding shareholder contribution were included in the consolidated financial statements for the years ended December 31, 2015, 2016 and 2017, respectively.

Management service provided by Beihai Silver Beach

On April 1, 2013, the Company and Beihai Silver Beach entered into a contract, pursuant to which Beihai Silver Beach was engaged to manage the hotel and office leasing operations owned by Shanghai BaoAn Enterprise, Shanghai BaoAn Hotel (“BaoAn Entities”) for ten years. The management fees incurred for the years ended December 31, 2015, 2016 and 2017 were US\$470 and US\$421, and US\$501 respectively.

FANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands of United States Dollars (“US\$”), except for number of shares and per share data)

18. RELATED PARTY TRANSACTIONS (continued)

b) The Company had the following related party transactions for the years ended December 31, 2015, 2016 and 2017 (continued):

Hotel service fee

For the year ended December 31, 2015, Upsky San Francisco, Upsky Long Island and Upsky Lighthouse provided hotel accommodation to the Company amounting to US\$20, US\$116 and US\$1, respectively. In the year ended December 31, 2016, Upsky San Francisco, Upsky Long Island and Beihai Silver Beach provided hotel accommodation to the Company amounting to US\$17, US\$81 and US\$113. and in the ended December 31, 2017, Upsky San Francisco, Upsky Long Island and Upsky Lighthouse provided hotel accommodation to the Company amounting were nil.

Training service fee

In the year ended December 31, 2017, New York Military Academy, a company of which Vincent Tianquan Mo is a director, provided training service to the Company amounting was nil (2016: US\$111).

Use of domain name of Che Tian Xia Company Ltd.

In April 2013, the Company entered into a contract with Che Tian Xia Company Ltd. to use the latter’s domain name www.youtx.com for five years at nil consideration.

Nanning Xuyin holds shares of Guilin Bank Co., Ltd (“Guilin Bank”)

As of December 31, 2015, Nanning Xuyin, which is 80% owned by Vincent Tianquan Mo, held 73,430,061 shares of Guilin Bank that were pledged by a third-party for its overdue receivables to the Company through an entrustment agreement. In 2016, 30,595,859 shares of Guilin Bank have been transferred to the Company from Nanning Xuying. In 2017, all the rest of the shares of Guilin Bank have been transferred to the Company from Nanning Xuying.

c) The Company had the following related party balances as of December 31, 2016 and 2017:

	As of December 31,	
	2016	2017
	US\$	US\$
Amounts due from a related party:		
- Beihai Silver Beach	197	167

The balances as of December 31, 2016 and 2017 represented outstanding management fees which were unsecured and interest-free.

19. EMPLOYEE DEFINED CONTRIBUTION PLAN

Full time employees of the Company in the PRC participate in a government mandated defined contribution plan, pursuant to which certain pension benefits, medical care, employee housing fund and other welfare benefits are provided to employees. Chinese labor regulations require that the PRC subsidiaries of the Company make contributions to the government for these benefits based on certain percentages of the employees’ salaries. The Company has no legal obligation for the benefits beyond the contributions made. The total amounts for such employee benefits, which were expensed as incurred, were US\$46,861, US\$79,676 and US\$21,583 for the years ended December 31, 2015, 2016 and 2017, respectively.

FANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands of United States Dollars (“US\$”), except for number of shares and per share data)

20. COMMITMENTS AND CONTINGENCIES

Capital commitment

The company had capital commitments mainly for the acquisition and construction of property and equipment of US\$117,732 as of December 31, 2017. All of the commitments relating to the purchase of the office building are scheduled to be paid within one year and the commitments relating to the construction project will be settled in installments in the following years according to the construction progress.

Operating lease commitments

As of December 31, 2017, the Company had future minimum lease payments under non-cancellable operating leases with initial terms in excess of one year as follows:

	US\$
2018	12,812
2019	4,849
2020	2,294
2021	187
2022 and thereafter	113
	20,255

Payments under operating leases are expensed on a straight-line basis over the periods of the respective leases. The Company’s lease arrangements have no renewal options, rent escalation clauses, restrictions or contingent rents and are all conducted with third parties, except for the building leased from a related party as disclosed in Note 18. For the years ended December 31, 2015, 2016 and 2017, total rental expenses for all operating leases were US\$33,769, US\$66,330 and US\$27,832, respectively.

Income taxes

As of December 31, 2017, the Company had accrued US\$144,915 for unrecognized tax benefits (Note 16). The final outcome of the tax uncertainty is dependent upon various matters including tax examinations, interpretation of tax laws or expiration of statute of limitations. However, due to the uncertainties associated with the status of examinations, including the protocols of finalizing audits by the relevant tax authorities, there is a high degree of uncertainty regarding the future cash outflows associated with these tax uncertainties. As of December 31, 2017, the Company classified the accrual for unrecognized tax benefits as a current liability.

Guarantees

In accordance with ASC 460, the Company determined that the fair value of the guarantees provided on the transferred mortgage and unsecured loans and guaranteed loans (Note 7) was insignificant as of December 31, 2016 because the potential exposure to the Company was minimal, as (i) each transferred mortgage loan and guaranteed loan was guaranteed by the borrower’s assets with a fair value substantially greater than the loan principal amounts, and (ii) each transferred unsecured loan was separately assessed by the Company based on recovery risk and the likelihood of default was considered remote. Additionally, no contingent liability was recorded as of December 31, 2016 as there were no indicators that the borrowers will default in the foreseeable future. The Company has ceased the transfer of loans in 2017 and no contingent liability was recorded as of December 31, 2017.

FANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands of United States Dollars (“US\$”), except for number of shares and per share data)

21. SEGMENT REPORTING

In accordance with ASC 280, “Segment Reporting”, the Company’s chief operating decision maker has been identified as the executive chairman of the board of directors and chief executive officer, who makes resource allocation decisions and assesses performance based on the Company’s consolidated results. As a result, the Company has only one reportable segment.

Geographic disclosures

As the Company generates substantially all of its revenues from customers domiciled in the PRC, no geographical segments are presented. All of the Company’s long-lived assets are located in the PRC except for buildings and land (i.e. including the construction in progress) with net book values of US\$57,414 and US\$104,327 as of December 31, 2016 and 2017, respectively, which are located in the United States of America.

FANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands of United States Dollars (“US\$”), except for number of shares and per share data)

22. EARNINGS (LOSS) PER SHARE

Basic and diluted earnings (loss) per share for each of the years presented are calculated as follows:

	For the Years Ended December 31,					
	2015		2016		2017	
	US\$ Class A	US\$ Class B	US\$ Class A	US\$ Class B	US\$ Class A	US\$ Class B
Earnings (Loss) per share - basic:						
Numerator:						
Allocation of net income (loss) attributable to ordinary shareholders used in calculating income (loss) per ordinary share-basic	(10,783)	(4,313)	(125,531)	(44,104)	15,736	5,971
Denominator:						
Weighted average number of ordinary shares outstanding used in calculating basic earnings (loss) per share	60,834,236	24,336,650	69,269,099	24,336,650	64,139,015	24,336,650
Denominator used for basic earnings (loss) per share	60,834,236	24,336,650	69,269,099	24,336,650	64,139,015	24,336,650
Earnings (loss) per share - basic	<u>(0.18)</u>	<u>(0.18)</u>	<u>(1.81)</u>	<u>(1.81)</u>	<u>0.25</u>	<u>0.25</u>
Earnings (loss) per share - diluted:						
Numerator:						
Allocation of net income (loss) attributable to ordinary shareholders used in calculating income (loss) per ordinary share	(10,783)	(4,313)	(125,531)	(44,104)	15,736	5,971
Effect of convertible senior notes	-	-	-	-	-	-
Allocation of net income (loss) attributable to ordinary shareholders used in calculating income (loss) per ordinary share-diluted after assumed conversion	<u>(10,783)</u>	<u>(4,313)</u>	<u>(125,531)</u>	<u>(44,104)</u>	<u>15,736</u>	<u>5,971</u>

FANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands of United States Dollars (“US\$”), except for number of shares and per share data)

22. EARNINGS (LOSS) PER SHARE (Continued)

Reallocation of net income (loss) attributable to ordinary shareholders as a result of conversion of Class B to Class A shares	(4,313)	-	(44,104)	-	5,971	-
Net income (loss) attributable to ordinary shareholders	(15,096)	(4,313)	(169,635)	(44,104)	21,707	5,971
Denominator:						
Weighted average number of ordinary shares outstanding used in calculating basic earnings (loss) per share	60,834,236	24,336,650	69,269,099	24,336,650	64,139,015	24,336,650
Conversion of Class B to Class A ordinary shares	24,336,650	-	24,336,650	-	24,336,650	-
Employee stock options	-	-	-	-	3,110,012	-
Convertible senior notes	-	-	-	-	-	-
Denominator used for diluted earnings (loss) per share	85,170,886	24,336,650	93,605,749	24,336,650	91,585,677	24,336,650
Earnings (loss) per share -diluted	<u>(0.18)</u>	<u>(0.18)</u>	<u>(1.81)</u>	<u>(1.81)</u>	<u>0.24</u>	<u>0.24</u>

The repurchased but not retired ordinary shares are accounted as treasury stock which are not considered outstanding and excluded from the calculation of basic earnings (loss) per share since the date of repurchase.

Effects of convertible senior notes to purchase ordinary shares and certain stock options were not included in the calculation of diluted earnings (loss) per share for the year ended December 31, 2015, 2016 and 2017 because the impact of inclusion would be anti-dilutive.

In 2017, the number of securities that were not included in the calculation of diluted earnings (loss) per share because the impact of inclusion would be anti-dilutive were as follows: 2,961,570 share options, 290,534 related to the Company’s December 2018 Notes, 2,790,860 related to the Company’s September 2022 Notes and 5,581,720 related to the Company’s November 2022 Notes. As of December 31, 2017, the conversion prices for the December 2018 Notes, the September 2022 Notes and the November 2022 Notes were US\$19.62 per ADS, US\$7.166 per ADS and US\$7.166 per ADS, respectively, as of December 31, 2017. There is no cash conversion rate.

In 2016, the number of securities that were not included in the calculation of diluted earnings (loss) per share because the impact of inclusion would be anti-dilutive were as follows: 5,763,088 employee stock options, 4,153,642 related to the Company’s December 2018 Notes, 2,790,860 related to the Company’s September 2022 Notes and 5,581,720 related to the Company’s November 2022 Notes. As of December 31, 2016, the conversion prices for the December 2018 Notes, the September 2022 Notes and the November 2022 Notes were US\$19.62 per ADS, US\$7.166 per ADS and US\$7.166 per ADS, respectively, as of December 31, 2016. There is no cash conversion rate.

FANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands of United States Dollars (“US\$”), except for number of shares and per share data)

23. SUBSEQUENT EVENT

On January 2, 2018, the Company entered into a purchase agreement with a third party real estate developer, Chongqing Rungang Real Estate Developing Co., Ltd. (“Rungang”) to purchase floor 11 to 25 of Chongqing LFC located in Chongqing, China. The Company is in the process of applying a mortgage loan for the purchase of the buildings, and has paid US\$47,597 to Rungang as down payment in January 29, 2018.

In November 2017, a court verdict was rendered in favor of the Company for certain disputed receivables and commitment deposits due from a customer in the amount of US\$ 9,310, including penalties and interest. Despite the verdict, the Company had initially fully provided for the outstanding receivables as of December 31, 2017, given the Company’s assessment of the customer’s poor financial health. In February 2018, the Company entered into a supplemental settlement agreement pursuant to which the customer repaid a total of US\$5.8million through April 2018. The Company recognized the subsequent event via a reversal of its allowance for doubtful accounts as of December 31, 2017 up to the amount of subsequent cash settlement.

24. PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION

Condensed balance sheets

	As of December 31,	
	2016	2017
	US\$	US\$
ASSETS		
Cash and cash equivalents	34,072	11,801
Prepayments and other current assets	491	1,485
Amounts due from subsidiaries	-	8,835
Total current assets	34,563	22,121
Non-current assets:		
Property and equipment, net	12	-
Long-term investments	54,408	52,283
Investment in subsidiaries, PRC Domestic Entities and PRC Domestic Entities’ subsidiaries	753,117	992,902
Total non-current assets	807,537	1,045,185
Total assets	842,100	1,067,306
LIABILITIES AND SHAREHOLDERS’ EQUITY		
Current liabilities:		
Convertible notes- current	-	5,700
Accrued expenses and other liabilities	11,401	3,850
Amounts due to subsidiaries and PRC Domestic Entities	48,301	-
Total current liabilities	59,702	9,550
Non-current liabilities:		
Convertible senior notes	295,268	291,365
Long-term loans	-	26,808
Total non-current liabilities	295,268	318,173
Total liabilities	354,970	327,723
Commitments and contingencies	-	-
Shareholders’ equity:		
Class A ordinary shares, par value HK\$1.00 per share, 600,000,000 shares authorized for Class A and Class B in aggregate, and 64,360,062 shares and 64,012,758 shares issued and outstanding as of December 31, 2016 and 2017, respectively	9,157	9,204

FANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands of United States Dollars (“US\$”), except for number of shares and per share data)

24. PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION (continued)

Condensed balance sheets (continued)

Class B ordinary shares, par value HK\$1.00 per share, 600,000,000 shares authorized for Class A and Class B in aggregate, and 24,336,650 shares and 24,336,650 shares issued and outstanding as of December 31, 2016 and 2017, respectively	3,124	3,124
Additional paid-in capital	488,943	500,666
Accumulated other comprehensive income (loss)	(81,349)	137,630
Retained earnings	203,870	225,574
Treasury stock	<u>(136,615)</u>	<u>(136,615)</u>
Total shareholders' equity	<u>487,130</u>	<u>739,583</u>
Total liabilities and shareholders' equity	<u>842,100</u>	<u>1,067,306</u>

FANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands of United States Dollars (“US\$”), except for number of shares and per share data)

24. **PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION (continued)**

Condensed statements of comprehensive income (loss)

	For the Years Ended December 31,		
	2015	2016	2017
	US\$	US\$	US\$
Revenues	-	-	-
Cost of revenues	-	-	-
Gross profit	-	-	-
General and administrative (expenses) income	3,023	3,610	(998)
Operating (loss) income	3,023	3,610	(998)
Equity in profits (losses) of subsidiaries, PRC Domestic Entities and PRC Domestic Entities' subsidiaries	(6,254)	(167,967)	27,339
Interest income	260	1,775	196
Interest expenses	(12,108)	(17,807)	(7,233)
Realized gain on available-for-sale security (including accumulated other comprehensive income reclassifications for unrealized net gain on available-for-sale security of US\$10,583 and US\$2,736 for the years ended 2016 and 2017, respectively)	-	10,583	2,736
Investment income	-	1,571	2,221
Other-than-temporary impairment on available-for-sale securities	-	(2,232)	(2,768)
Foreign exchange gain (loss)	(17)	832	211
Income (loss) before income taxes	(15,096)	(169,635)	21,704
Income tax expenses	-	-	-
Net income (loss)	(15,096)	(169,635)	21,704
Other comprehensive income (loss), net of tax			
Foreign currency translation adjustments	(55,928)	(60,732)	56,571
Amounts reclassified from accumulated other comprehensive income	-	(10,583)	(2,736)
Unrealized gain (loss) on available-for-sale securities	(4,002)	7,326	14,575
Other comprehensive income (loss) recorded by subsidiaries, PRC Domestic Entities and PRC Domestic Entities' subsidiaries	-	-	198,263
Gain (loss) on intra-entity foreign transactions of long-term-investment nature	-	(6,996)	1,872
Other comprehensive income (loss), before tax	(59,930)	(70,985)	268,545
Income tax expense related to components of other comprehensive income	-	-	(49,566)
Other comprehensive income (loss), net of tax	(59,930)	(70,985)	218,979
Comprehensive income (loss)	(75,026)	(240,620)	240,683

FANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands of United States Dollars (“US\$”), except for number of shares and per share data)

24. PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION (continued)

Condensed statements of cash flows

	<u>2015</u>	<u>2016</u>	<u>2017</u>
	US\$	US\$	US\$
Net cash provided by (used in) operating activities	(4,718)	117,398	(67,381)
Net cash (used in) provided by investing activities	(78,196)	11,575	13,931
Net cash (used in) provided by financing activities	489,695	(522,057)	31,179
Net (decrease) increase in cash and cash equivalents	406,781	(393,084)	(22,271)
Cash and cash equivalents at beginning of year	20,374	427,156	34,072
Cash and cash equivalents at end of year	<u>427,155</u>	<u>34,072</u>	<u>11,801</u>

Basis of Presentation

For the presentation of the parent company only condensed financial information, the Company records its investment in subsidiaries, PRC Domestic Entities and PRC Domestic Entities’ subsidiaries which it effectively controls through contractual agreements, under the equity method of accounting as prescribed in ASC 323, “Investments-Equity Method and Joint Ventures”. Such investments are presented on the condensed balance sheets as “Investment in subsidiaries, PRC Domestic Entities, and PRC Domestic Entities’ subsidiaries” and the subsidiaries, PRC Domestic Entities and PRC Domestic Entities’ subsidiaries’ profit or loss as “Equity in profits (losses) of subsidiaries, PRC Domestic Entities and PRC Domestic Entities’ subsidiaries” on the condensed statements of comprehensive income (loss). The parent company only condensed financial information should be read in conjunction with the Company’s consolidated financial statements.

CERTIFICATION

I, Vincent Tianquan Mo, certify that:

1. I have reviewed this annual report on Form 20-F of Fang Holdings Limited;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f) and 15d-15(f)) for the company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

May 15, 2018

/s/ Vincent Tianquan Mo

Name: Vincent Tianquan Mo

Title: Chief Executive Officer

CERTIFICATION

I, Frank Hua Lei, certify that:

1. I have reviewed this annual report on Form 20-F of Fang Holdings Limited;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f) and 15d-15(f)) for the company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

May 15, 2018

/s/ Frank Hua Lei

Name: Frank Hua Lei

Title: Chief Financial Officer

CERTIFICATION REQUIRED BY
RULE 13a-14(b) OR RULE 15d-14(b)
AND 18 U.S.C. SECTION 1350

In connection with the Annual Report of Fang Holdings Limited (the "Company") on Form 20-F for the year ended December 31, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Vincent Tianquan Mo, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

May 15, 2018

/s/ Vincent Tianquan Mo

Name: Vincent Tianquan Mo

Title: Chief Executive Officer

CERTIFICATION REQUIRED BY
RULE 13a-14(b) OR RULE 15d-14(b)
AND 18 U.S.C. SECTION 1350

In connection with the Annual Report of Fang Holdings Limited (the "Company") on Form 20-F for the year ended December 31, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Frank Hua Lei, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

May 15, 2018

/s/ Frank Hua Lei

Name: Frank Hua Lei

Title: Chief Financial Officer

May 15, 2018

Fang Holdings Limited
Block A, No.20 Guogongzhuang Middle Street
Fengtai District, Beijing 100070
The People's Republic of China

Dear Sirs:

We consent to the reference to our firm under the headings "Risk Factors" and "Regulation" in the Annual Report of Fang Holdings Limited (the "Company") on Form 20-F for the year ended December 31, 2017, which will be filed with the Securities and Exchange Commission (the "SEC") and to the incorporation by reference in the Company's Registration Statements on Form S-8 (File No.333-173157 and 333-207182) filed with the SEC on March 30, 2011 and September 29, 2015, respectively, and on Form F-3 (File No.333-208628) filed with the SEC on December 18, 2015 of such references to our firm under such headings.

We also consent to the filing with the SEC of this consent letter as an exhibit to the Company's Annual report on Form 20-F for the year ended December 31, 2017.

Yours faithfully
/s/ Jingtian & Gongcheng

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the following Registration Statements:

- (1) Registration Statement (Form S-8 No. 333-173157) pertaining to the Stock Related Award Incentive Plan of 1999 and the 2010 Stock Incentive Plan of Fang Holdings Limited,
- (2) Registration Statement (Form S-8 No. 333-207182) pertaining to the 2015 Stock Incentive Plan of Fang Holdings Limited, and
- (3) Registration Statement (F-3 No. 333-208628) and related prospectus of Fang Holdings Limited;

of our reports dated May 15, 2018, with respect to the consolidated financial statements of Fang Holdings Limited and the effectiveness of internal control over financial reporting of Fang Holdings Limited, included in its Annual Report (Form 20-F) of Fang Holdings Limited for the year ended December 31, 2017.

/s/ Ernst & Young Hua Ming LLP

Shenzhen, the People's Republic of China

May 15, 2018
