

SouFun Holdings Ltd  
Form 20-F  
April 03, 2013  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**FORM 20-F**

(Mark One)

**REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (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, 2012**

**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**

# **SouFun Holdings Limited**

**(Exact name of Registrant as specified in its charter)**

**Cayman Islands**

**(Jurisdiction of incorporation or organization)**

**F9M, Building 5, Zone E, Hanwei International Plaza**

**Fengmao South Road**

**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:**

<b>Title of each class</b>	<b>Name of each exchange on which registered</b>
American Depositary Shares, each representing one Class A	The New York Stock Exchange

ordinary share, par value HK\$1.00 each

**Securities registered or to be registered pursuant to Section 12(g) of the Act: None**

**Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None**

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

Class A ordinary shares, par value HK\$1.00 each	56,013,735
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 accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

U.S. GAAP  International Financial Reporting Standards as issued  Other

by the International Accounting Standards Board

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

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**INTRODUCTION**

Except where the context otherwise requires and for purposes of this annual report only:

we, us, Company, our or SouFun refers to SouFun Holdings Limited (formerly known as SouFun.com Limited), and (i) its PRC subsidiaries as follows:

Beijing SouFun Network Technology Co., Ltd., or SouFun Network,

Beijing Zhong Zhi Shi Zheng Information Technology Co., Ltd., or Beijing Zhong Zhi Shi Zheng,

Shanghai SouFun Information Co., Ltd., or SouFun Shanghai,

SouFun Information (Shenzhen) Co., Ltd., or SouFun Shenzhen,

SouFun Information (Tianjin) Co., Ltd., or SouFun Tianjin,

SouFun Media Technology (Beijing) Co., Ltd., or SouFun Media,

Beijing Hong An Tu Sheng Network Technology Co., Ltd., or Beijing Hong An Tu Sheng,

Beijing Tuo Shi Huan Yu Network Technology Co., Ltd., or Beijing Tuo Shi Huan Yu,

Beijing Jia Shang Li Nian Network Technology Co., Ltd., or Beijing Jia Shang Li Nian,

Beijing Zhong Zhi Xun Bo Information Technology Co., Ltd., or Beijing Zhong Zhi Xun Bo,

Beijing Hua Ju Tian Xia Network Technology Co., Ltd., or Beijing Hua Ju Tian Xia,

Beijing Li Man Wan Jia Network Technology Co., Ltd., or Beijing Li Man Wan Jia,

Beijing Sou You Tian Xia Network Technology Co., Ltd., or Beijing Sou You Tian Xia,

Tianjin SouFun Network Technology Co., Ltd., or Tianjin SouFun Network,

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Shanghai BaoAn Hotel Co., Ltd., or Shanghai BaoAn Hotel, and

Shanghai BaoAn Enterprise Co., Ltd., or Shanghai BaoAn Enterprise;  
(ii) its offshore subsidiaries as follows:

Bravo Work Investments Limited, incorporated in Hong Kong, or Bravo Work,

China Home Holdings Limited, incorporated in Cayman Islands,

China Home Holdings (BVI) Limited, incorporated in the British Virgin Islands,

China Home Holdings (HK) Limited, incorporated in Hong Kong,

SouFun International Limited (formerly known as China Index Academy Limited ), incorporated in Hong Kong, or SouFun International,

China Real Estate Agent University, incorporated in Hong Kong,

China Index Academy Limited (formerly known as Max Impact Investments Limited ), incorporated in Hong Kong, or China Index Academy,

Pendiary Investments Limited, incorporated in the British Virgin Islands, or Pendiary Investments,

Selovo Investments Limited, incorporated in the British Virgin Islands, or Selovo Investments,

China Property Holdings Limited, incorporated in Cayman Islands,

China Property Holdings (BVI) Limited, incorporated in the British Virgin Islands,

Hong Kong Property Network Limited, incorporated in Hong Kong,

Sou You Tian Xia Holdings Limited, incorporated in Cayman Islands,

Sou You Tian Xia Holdings (BVI) Limited, incorporated in the British Virgin Islands,

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Sou You Tian Xia Holdings (HK) Limited, incorporated in Hong Kong,

Best Scholar Holdings Limited, incorporated in the British Virgin Islands,

Best Scholar Holdings (Delaware) Limited, incorporated in Delaware,

Best Work Holdings (New York) LLC, incorporated in New York, and

Wall Street Index Research Center LLC, incorporated in New York; and

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(iii) in the context of describing our operations and consolidated financial statements, our 14 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) as follows:

Beijing China Index Information Co., Ltd., or Beijing China Index,

Beijing Century Jia Tian Xia Technology Development Co., Ltd., or Beijing JTX Technology,

Beijing Jia Tian Xia Advertising Co., Ltd., or Beijing Advertising,

Beijing Li Tian Rong Ze Technology Development Co., Ltd., or Beijing Li Tian Rong Ze,

Beijing SouFun Internet Information Service Co., Ltd., or Beijing Internet,

Beijing SouFun Science and Technology Development Co., Ltd., or Beijing Technology,

Shanghai China Index Consultancy Co., Ltd., or Shanghai China Index,

Shanghai Jia Biao Tang Real Estate Broking Co., Ltd., or Shanghai JBT,

Shanghai SouFun Advertising Co., Ltd., or Shanghai Advertising,

Tianjin Jia Tian Xia Advertising Co., Ltd., or Tianjin JTX Advertising,

Beijing Yi Ran Ju Ke Technology Development Co., Ltd., or Beijing Yi Ran Ju Ke,

Guangxi Overseas Talent Industrial Park Investment Co., Ltd., or Guangxi Overseas Talent,

Beijing Li Tian Rong Ze Wan Jia Technology Development Co., Ltd., or Beijing Li Tian Rong Ze Wan Jia, and

Shanghai BaoAn Property Management Co., Ltd., or Shanghai BaoAn Property;

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;



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MIIT refers to the Ministry of Industry and Information Technology and its competent local branches;

MOFCOM refers to the Ministry of Commerce and its competent local branches;

GFA refers to gross floor area;

sq.m. refers to square meter(s);

shares or ordinary shares refers to our ordinary shares, including both Class A ordinary shares and Class B ordinary shares;

ADSs refers to our American depositary shares, each of which represents one Class A ordinary share, and ADRs refers to American depositary receipts, which, if issued, evidence our ADSs;

RMB or Renminbi refers to the legal currency of China;

SAIC refers to the State Administration for Industry and Commerce and its competent local branches;

SAFE refers to the State Administration of Foreign Exchange and its competent local branches;

SAT refers to the State Administration of Taxation and its competent local branches;

Hong Kong dollars or HK\$ refers to the legal currency of the Hong Kong Special Administrative Region; and

U.S. dollars or US\$ refers to the legal currency of the United States of America.

This annual report on Form 20-F includes our audited consolidated statements of comprehensive income for the years ended December 31, 2010, 2011 and 2012, our audited consolidated balance sheets as of December 31, 2011 and 2012, and our audited consolidated statements of cash flows for the years ended December 31, 2010, 2011 and 2012.

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**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 growth strategies;

our future business development, results of operations and financial condition;

expected changes in our revenues and certain cost or expense items;

our ability to attract clients and further enhance our brand recognition;

trends and competition in the real estate, Internet and online advertising industries; and

PRC laws, regulations and policies relating to the real estate, Internet and online advertising industries.

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

You should not rely upon forward-looking statements as predictions of future events. 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.

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**PART I**

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

Not applicable.

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

Not applicable.

**ITEM 3. KEY INFORMATION**

***A. Selected financial data***

We have derived our selected consolidated statement of comprehensive income data (except for ADS information) for the years ended December 31, 2010, 2011 and 2012 and our selected consolidated balance sheet data as of December 31, 2011 and 2012, from our audited consolidated financial statements included in this annual report. Our selected statement of comprehensive income data (except for ADS information) for the year ended December 31, 2008 and 2009 and our selected consolidated balance sheet data as of December 31, 2008, 2009 and 2010, have been derived from our audited consolidated financial statements not included in this annual report. Our financial statements have been prepared in accordance with the accounting principles generally accepted in the United States, or U.S. GAAP, and have been audited by Ernst & Young Hua Ming LLP, an independent registered public accounting firm.

Since January 1, 2012, we have reclassified the revenues from SouFun membership services from other value-added services to e-commerce services in our consolidated statements of comprehensive income. The reclassification 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.

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Year ended December 31,  
**2008**      **2009**      **2010**      **2011**      **2012**  
 (US\$ in thousands, except for number of shares and per share data)

**Consolidated statement of comprehensive income data**

	2008	2009	2010	2011	2012
<b>Revenues</b>					
Marketing services	86,252	102,367	167,711	246,634	249,861
E-commerce services				24,170	102,162
Listing services	16,070	17,559	40,355	67,125	72,874
Other value-added services	1,802	1,745	3,001	5,897	5,361
Other value-added products		5,378	13,423		
Total revenues	104,124	127,049	224,490	343,826	430,258
<b>Cost of revenues</b>					
Cost of services	(22,162)	(26,484)	(49,120)	(66,571)	(80,863)
Cost of other value-added products		(4,863)	(12,891)		
Total cost of revenues	(22,162)	(31,347)	(62,011)	(66,571)	(80,863)
<b>Gross profit</b>	<b>81,962</b>	<b>95,702</b>	<b>162,479</b>	<b>277,255</b>	<b>349,395</b>
<b>Operating expenses:</b>					
Selling expenses	(18,708)	(25,186)	(42,512)	(67,207)	(80,056)
General and administrative expenses	(19,857)	(22,176)	(41,547)	(69,611)	(70,780)
<b>Operating income:</b>	<b>43,397</b>	<b>48,340</b>	<b>78,420</b>	<b>140,437</b>	<b>198,559</b>
Foreign exchange (loss) gain	(2,826)	(59)	(462)	1	90
Interest income	1,221	1,205	2,390	10,483	19,406
Interest expenses				(4,026)	(11,630)
Realized gain trading securities		195	282	263	
Government grants	360	730	740	1,399	1,298
Other-than-temporary impairment on available-for-sale security				(4,343)	(14)
<b>Income before income taxes and noncontrolling interests</b>	<b>42,152</b>	<b>50,411</b>	<b>81,370</b>	<b>144,214</b>	<b>207,709</b>
Income tax (expense) benefit	(18,805)	2,199	(18,222)	(42,617)	(55,905)
<b>Net income</b>	<b>23,347</b>	<b>52,610</b>	<b>63,148</b>	<b>101,597</b>	<b>151,804</b>
Net income (loss) attributable to noncontrolling interests	(34)	(42)	40	(28)	(6)
Net income attributable to SouFun Holdings Limited's shareholders	23,381	52,652	63,108	101,625	151,810
<b>Other comprehensive income, net of tax</b>					
Foreign currency translation adjustments	3,359	88	5,344	10,839	1,378
Unrealized (loss) gain on available-for-sale security			(721)		743
Reclassification adjustment for loss included in net income				721	
<b>Other comprehensive income, net of tax</b>	<b>3,359</b>	<b>88</b>	<b>4,623</b>	<b>11,560</b>	<b>2,121</b>
<b>Comprehensive income</b>	<b>26,706</b>	<b>52,698</b>	<b>67,771</b>	<b>113,157</b>	<b>153,925</b>
Comprehensive income (loss) attributable to noncontrolling interests	(34)	(42)	40	(28)	(6)
Comprehensive income attributable to SouFun Holdings Limited's shareholders	26,740	52,740	67,731	113,185	153,931
<b>Earnings per share for Class A and Class B ordinary shares</b>					
Basic	0.32	0.71	0.85	1.33	1.96
Diluted <sup>(1)</sup>	0.30	0.68	0.79	1.24	1.85
Dividend declared per ordinary share		0.59		1.98	0.98
<b>Earnings per ADS<sup>(2)</sup></b>					
Basic	0.32	0.71	0.85	1.33	1.96
Diluted <sup>(1)</sup>	0.30	0.68	0.79	1.24	1.85
Dividend declared per ADS		0.59		1.98	0.98
<b>Weighted average number of Class A and Class B ordinary shares outstanding</b>					
Basic	74,020,217	73,986,129	74,683,593	76,492,272	77,365,156
Diluted	77,092,197	77,418,960	80,220,663	82,215,832	81,924,565
<b>Weighted average number of ADSs outstanding<sup>(3)</sup></b>					
Basic	74,020,217	73,986,129	74,683,593	76,492,272	77,365,156
Diluted	77,092,197	77,418,960	80,220,663	82,215,832	81,924,565
<b>Share-based compensation expenses included in:</b>					
Cost of revenues	268	489	749	1,103	1,162
Selling expenses	323	595	1,035	1,506	1,626
General and administrative expenses	2,126	3,056	3,291	4,561	4,361

(1) Earnings per share for Class A and Class B ordinary shares (diluted) and earnings per ADS (diluted) for each year from 2008 to 2012 have been computed, after considering the dilutive effect of the shares underlying employees' share options and, as applicable, preferred shares.

(2)

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Earnings per ADS has been retroactively adjusted to reflect the adjustment of our ADS to share ratio from one ADS representing four Class A ordinary shares to one ADS representing one Class A ordinary share effective on February 18, 2011.

- (3) Weighted average number of ADSs outstanding has been retroactively adjusted to reflect the adjustment of our ADS to share ratio from one ADS representing four Class A ordinary shares to one ADS representing one Class A ordinary share effective on February 18, 2011.

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	2008	As at December 31,			
		2009	2010	2011	2012
		(US\$ in thousands)			
<b>Consolidated balance sheet data</b>					
Total current assets	102,861	149,224	279,527	261,552	194,597
Total assets	107,246	154,494	293,767	580,371	801,161
Total current liabilities	79,867	124,306	160,881	449,807	467,955
Total liabilities	93,858	129,993	171,100	488,388	613,652
Total SouFun Holdings Limited's equity	13,283	24,438	122,564	91,908	186,879
Noncontrolling interests	105	63	103	75	630
Total shareholders' equity	13,388	24,501	122,667	91,983	187,509
Total liabilities and shareholders' equity	107,246	154,494	293,767	580,371	801,161

*Exchange Rate Information*

Our business is 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. For all dates and periods through December 31, 2008, exchange rates of Renminbi into U.S. dollars are based on the noon buying rate in The City of New York for cable transfers of Renminbi as certified for customs purposes by the Federal Reserve Bank of New York. For January 1, 2009 and all later dates and periods, 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 March 29, 2013, the noon buying rate was RMB6.2108 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.

	Period End	Noon Buying Rate		
		Average <sup>(1)</sup>	Low	High
		(RMB per US\$1.00)		
2008	6.8225	6.9193	7.2946	6.7800
2009	6.8259	6.8295	6.8470	6.8176
2010	6.6000	6.7696	6.8330	6.6000
2011	6.2939	6.4475	6.6364	6.2939
2012	6.2301	6.2990	6.3879	6.2221
September	6.2848	6.3200	6.3489	6.2848
October	6.2372	6.2627	6.2877	6.2372
November	6.2265	6.2338	6.2454	6.2221
December	6.2301	6.2328	6.2502	6.2251
2013				
January	6.2186	6.2215	6.2303	6.2134
February	6.2213	6.2323	6.2438	6.2213
March (through March 29, 2013)	6.2108	6.2154	6.2246	6.2105

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

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### ***B. Capitalization and Indebtedness***

Not applicable.

### ***C. Reasons for the Offer and Use of Proceeds***

Not applicable.

### ***D. Risk Factors***

#### ***Risks Relating to Our Business***

***Our business depends substantially on revenues from our marketing services, including primarily online advertising, 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 we expect to continue to derive a significant proportion of our revenues from marketing services. Marketing services represent our largest source of revenues, accounting for 74.7%, 71.7% and 58.1% of our revenues in 2010, 2011 and 2012, respectively. In particular, our new home business accounted for 82.3%, 85.4% and 89.2% of our marketing service revenues in 2010, 2011 and 2012, respectively. 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:

the amount of user traffic on our websites, 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; and

widespread adoption of technologies that permit Internet users to selectively block unwanted web views, including advertisements on web pages.

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 on our ability to continue to expand our e-commerce services business.***

Revenues from e-commerce services constituted 23.8% of our total revenues for 2012, increasing from 7.0% of our total revenues in 2011. We began to offer our paid membership services to the registered members of our SouFun cards in 2011 and our services primarily include offers to purchase properties with discounts from our partner developers and dedicated information and related services to facilitate property purchases. The business of providing SouFun membership services is still relatively new and evolving, and its growth depends on our ability to manage it effectively. Although we generally have been able to maintain contractual arrangements with third-party property developers who provide discounts to registered members of our SouFun cards 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 or how they treat our registered

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members in their transactions with them. Customer complaints or negative publicity about our SouFun membership 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 is offered, grow our member base and increase transaction volume, our business and revenue growth prospects could be materially and adversely impacted.



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***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 2010, 2011 and 2012, listing service revenues represented approximately 18.0%, 19.6% and 16.9%, respectively, of our total revenues. The success of the listing service business depends on our ability to persuade real estate developers, real estate agents, brokers and property owners and managers to list their properties on our websites. We believe having large numbers of high-quality listings from such real estate professionals attracts users to our websites, thereby enhancing our attractiveness to advertisers and other real estate market participants. However, substantially all of our listing agreements are non-exclusive. Our listing customers may stop using our listing services and may choose to use the services of one or more of our competitors or 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 could become less attractive to users. If we experience reduced user traffic on our websites, advertisers from whom we derive the largest proportion of our revenues, 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 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 62.3%, 68.5% and 76.5% of our total revenues in 2010, 2011 and 2012, 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, 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. The average selling prices in the property market in many cities in China have increased rapidly in the past several months. In February 2013, for example, the State Counsel 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 have experienced a rapid increase and enforcing a 20% capital gains tax on the sale of existing homes. How these plans will be implemented and their long-term impact remain to be seen.

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 real estate transaction taxes, such as the sales tax on residential property sales by individuals within five years of purchase;

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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 franchise business or related fees and commissions; or

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

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

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We derive a substantial portion of our revenues from several major urban centers in China, including Beijing, Shanghai, Chongqing, Chengdu, Tianjin and Shenzhen. In 2012, we generated revenues in the aggregate of US\$256.3 million, representing 59.6% of our total revenues from these six urban centers. 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 a 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. 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 providing regional real estate listings together with localized services. 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 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 addition to promoting the SouFun 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.

We have applied to register in China the Chinese and English dual-language SouFun trademark as well as SouFun in English (and SouFun in Chinese) individually. We have successfully registered such trademarks in some industry categories, but our applications for certain other industry categories conflicts with existing registrations or applications for similar trademarks by another PRC company in such industry categories. We are in the process of resolving these conflicting trademark applications, but we estimate that this process may take several more years to complete. Our business, financial condition and results of operations may be materially and adversely affected if we lose the right to use our SouFun brand name or if we are unable to prevent third parties from using our trademarks, as we would not be able to leverage such brand names to develop our business and protect the brand's reputation and would lose the benefits of brand awareness among Internet users in China.



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In addition, the validity, enforceability and scope of protection of intellectual property in Internet-related industries in China is 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 and Publication (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: (i) opposes the fundamental principles of the PRC constitution; (ii) compromises state security, divulges state secrets, subverts state power or damages national unity; (iii) disseminates rumors, disturbs social order or disrupts social stability; (iv) propagates obscenity, pornography, gambling, violence, murder or fear or incites the commission of crimes; or (v) insults or slanders a third party or infringes upon the lawful right of a third party.

If any Internet content we offer or will offer through our consolidated 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 affect on our business, financial condition and results of operations. We may also be subject to potential liability for any unlawful actions of our customers or affiliates or for content we distribute that is deemed inappropriate. It may be difficult to determine the type of content that may result in liability to us, and if we are found to be liable, we may be forced to cease operation of our websites in China.

***If any of our consolidated controlled entities fails to maintain the applicable licenses and approvals held by it under the complex regulatory environment for Internet-based businesses and online advertising businesses in China, or any of our PRC subsidiaries or consolidated controlled entities fail to pass its annual government inspection or obtain renewal of its 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, MIIT, 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.

Our consolidated controlled entities 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 and Beijing Advertising currently holds an Internet content provider license, or ICP license, as required under the applicable PRC laws, rules and regulations; and each of Beijing Technology, Beijing JTX Technology, Beijing China Index and Beijing Advertising 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 include online residential communities that allow visitors to post information, including graphics or weblinks to videos, other websites or data in microblogs or online discussion forums, on our websites for discussion with other users, the release of such information on our websites 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 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

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request by the relevant governmental authorities, we are now preparing the relevant supplementary materials for such application. In addition, we are still in discussion with the relevant government authorities on our application for, and the authorities' issuance of, Internet news information service licenses.

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Under the applicable PRC laws, rules and regulations, the failure to obtain and/or maintain an Internet publication license and/or Internet news information service license may subject the entity to various penalties, including confiscation of revenues, imposition of fines and/or restrictions on their 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 damage our reputation and brands.***

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

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

any disruption or failure in the national backbone network, which would prevent our customers and users from accessing our websites;

any damage from fire, flood, earthquake and other natural disasters; and

computer viruses, hackings and similar events.

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

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

***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.***

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Our business depends on the performance and reliability of the Internet infrastructure in China. Substantially all access to the Internet is maintained through state-controlled telecommunication operators under the administrative control and regulatory supervision of 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 a more sophisticated Internet infrastructure will be developed in China. We may not have access to alternative networks in the event of disruptions, failures or other problems with China's Internet infrastructure. In addition, the Internet infrastructure in China may not support the demands associated with continued growth in Internet usage.



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We also rely on China Telecommunications Corporation, or China Telecom, and China United Netcom (Hong Kong) Ltd, or 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 marketing, e-commerce and listing 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 marketing, e-commerce and listing services;

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. 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 marketing, listing and e-commerce services, particularly SouFun membership services, to more cities across China. We also plan to expand into new sectors. 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. Moreover, due to the breadth and diversity of the PRC real estate market, 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.

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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.

***The members of our senior management team, in particular, Mr. Vincent Tianquan Mo ( Mr. Mo ), our founding shareholder, director and executive chairman, 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 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.

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In particular, if our current applications for registering our trademarks in certain relevant industry categories are unsuccessful, we would lose our right to continue to use the SouFun trademarks in such industry categories. If we continue to use such trademarks after these or similar trademarks have been registered by another entity, or if a holder of any registered trademark similar to ours claims that we are infringing its trademark rights, we could potentially be subject to civil liability for damages and faces fines, penalties or other sanctions, including forfeiture of profits earned from illegal use of the trademark. In addition, Beijing China Index was fined RMB10,000 in 2008 by the local branch of SAIC in connection with the use of the trade name China Index Research Institution for providing consulting services on our websites. Moreover, we have previously been involved in disputes arising from alleged infringement of third parties' copyrights on our websites, 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 for products and services sold over the Internet and we may incur significant costs and damage to our reputation as a result of defending against such potential liability.***

We provide third-party content on our websites 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 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 for compliance with applicable law. Violation of applicable law may result in penalties, including fines, confiscation of advertising fees, orders to cease dissemination of the offending advertisements and orders to publish advertisements correcting the misleading information. In case of serious violations, the PRC authorities may revoke the offending entities' advertising licenses and/or business licenses. In addition, our websites could be used as a platform for fraudulent transactions. The measures we take to guard against liability for third-party content or information may not be adequate to exonerate us from relevant civil and other liabilities.

Any such claims, with or without merit, could be time-consuming to defend and result in litigation and significant diversion of management's attention and resources. Even if these claims do not result in liability to us, we could incur significant costs in investigating and defending against these claims and suffer damage to our reputation. Our general liability insurance may not cover all potential claims to which we are exposed to and may not be adequate to indemnify us for all liability that may be imposed.

***Potential acquisitions, 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 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;

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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. ***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.***

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.

Our management has concluded that our internal control over financial reporting was effective as of December 31, 2012. See Item 15. Control and Procedures. Our independent registered public accounting firm has issued an attestation report on our management's assessment of our internal control over financial reporting and has concluded that our internal control over financial reporting was effective as of December 31, 2012. A number of our internal control measures were implemented or strengthened recently, including during 2011 and 2012 to improve and address deficiencies in our controls. However, there is no assurance that we will be able to continue to implement effectively these or other new or improved controls or that our management or our independent registered public accounting firm will determine that our disclosure controls and procedures or our internal control over financial reporting will be effective in the future.

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, 2012, we had leased properties in about 100 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.

Under PRC laws, rules and regulations, in situations where a tenant lacks evidence of the landlord's title or right to lease, the relevant lease agreement may not be valid or enforceable 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 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.



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### *Risks Relating 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. Specifically, foreign entities are not allowed to own more than a 50% equity interest in any PRC company operating an ICP business and are only allowed to directly own 100% of the equity interest of a PRC company operating an advertising business if such foreign entity has at least three years of direct experience operating an advertising business outside China, or less than 100% of the equity interest in the advertising business if the foreign investor has at least two years of direct experience operating an advertising business outside China. Currently, we do not directly operate an advertising business outside China and cannot qualify under PRC laws, rules and regulations to invest directly in a PRC entity that provides advertising services in China and our PRC foreign-invested subsidiaries may be prohibited from providing advertising services.

To comply with applicable PRC laws, rules and regulations, we conduct our operations in China through a series of contractual arrangements entered into among three of our PRC subsidiaries, SouFun Media, SouFun Network and Beijing Hong An Tu Sheng, 11 of our consolidated controlled entities, and their respective shareholders, which consist of exclusive technical consultancy and service agreements, equity pledge agreements, operating agreements, shareholders proxy agreements, loan agreements and exclusive call option agreements. See Item 7. Major Shareholders and Related Party Transactions B. Related Party Transactions Structure Contracts. 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 and advertising businesses. As certain agreements with our customers for Internet content distribution and advertising services 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 and advertising business 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, or 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 terminated the trademark license agreements and domain name license agreements between Beijing Advertising and us as well as those between Beijing Internet and us in August 2006, we have assigned all registered trademarks, trademark applications and domain names relating to SouFun and Jia Tian Xia to the relevant consolidated controlled entities in order to maintain their respective ICP licenses to operate as value-added telecommunication service providers. Since there is currently no official interpretation or implementation practice under the MIIT Notice, it remains uncertain how the MIIT Notice will be enforced and whether or to what extent the MIIT Notice may affect the legality of the corporate structures and contractual arrangements adopted by foreign-invested Internet companies, such as ours, that operate in China. See Item 7. Major Shareholders and Related Party Transactions B. Related Party Transactions.

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;



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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;

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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 restructure 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 affect on our financial condition and results of operations.

***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 subsidiaries, SouFun Media, SouFun Network and Beijing Hong An Tu Sheng, are considered foreign-invested enterprises in China and are, therefore, not permitted under PRC law to hold the ICP licenses and to operate the 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 and executive chairman, and Richard Jiangong Dai ( Mr. Dai ), the president, chief executive officer and a director of our Company. 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, pursuant to the Structure Contracts, if any of our consolidated controlled entities or their shareholders fail to perform their obligations under these contractual arrangements, we may be forced to (i) incur substantial costs and resources to enforce such arrangements, including the voting proxies, and (ii) 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. In addition, pursuant to these Structure Contracts, if Mr. Mo or Mr. Dai were to terminate their employment with us, they would be obligated to transfer their respective share ownership in any of our consolidated controlled entities to us or our designee. If Mr. Mo or

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Mr. Dai were to refuse to effect such a transfer, or if they were otherwise to act in bad faith toward us, then we may have to take legal action to compel them to fulfill their contractual obligations. In the event that we are unable to enforce these contractual arrangements, or if we experience significant time 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.

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

As of December 31, 2012, Media Partner Technology Limited, or Media Partner, and Next Decade Investments Limited, or Next Decade, whose shares are held in irrevocable discretionary trusts established by Mr. Mo, together hold approximately 28.6% of our outstanding share capital and approximately 72.6% of our voting power under our dual-class ordinary share structure, and are our largest shareholders. As of December 31, 2012, two other principal shareholders of our Company, General Atlantic and Apax held approximately 18.7% and 18.5% of our outstanding share capital, respectively, and each approximately 5.0% of our voting power. Media Partner and Next Decade together, as our largest shareholders, 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. 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 Relating 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. 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.

***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***

Prior to January 1, 2008, our PRC subsidiaries were governed by the PRC Enterprise Income Tax Law Concerning Foreign-Invested Enterprises and Foreign Enterprises, or the Old EIT Law, and generally subject to enterprise income taxes at a statutory rate of 33.0%, which consisted of a 30.0% national income tax and 3.0% local income tax. Some of our subsidiaries were qualified for preferential tax treatment under the Old EIT Law.

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In March 2007, the National People's Congress of China enacted the PRC Enterprise Income Tax Law, or the New EIT Law, which became effective on January 1, 2008. Under the New EIT Law, all foreign-invested enterprises and domestic enterprises, including our subsidiaries and consolidated controlled entities, are subject to enterprise income tax at a uniform rate of 25.0% if no preferential tax policy is applicable. The New EIT Law also provided for a transition period commencing January 1, 2008 for those enterprises which were established before the promulgation of the New EIT Law and were entitled to preferential tax treatment such as a reduced tax rate or a tax holiday. Based on the transitional rule, foreign-invested enterprises located in Shenzhen Special Economic Zone and Shanghai Zhangjiang High Technology Park, such as SouFun Shenzhen and SouFun Shanghai, which previously enjoyed a preferential tax rate of 15.0%, are eligible for a five-year transition period during which the income tax rate will be gradually increased to the unified rate of 25.0%. The applicable rates for SouFun Shenzhen and SouFun Shanghai are 18.0%, 20.0%, 22.0% and 24.0% in 2008, 2009, 2010 and 2011, respectively, and 25.0% in 2012 and onward. As a result of these changes in tax rates, our profitability, net income and earnings per share may be affected by the increase in the enterprise income tax rate.

In April 2008, the relevant PRC governmental authorities released qualification criteria and application and assessment procedures for high and new technology enterprises, which would be entitled to a statutory tax rate of 15.0%. Currently, five 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. Operating and Financial Review and Prospects A. Operating Results Results of Operations Taxation PRC Income Tax.

***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 operation, personnel, accounting, properties and other factors of an enterprise. In April 2009, SAT issued a Notice Regarding the Determination of Chinese-Controlled Offshore-Incorporated Enterprises as PRC Tax Resident Enterprises on the Basis of De Facto Management Bodies, or Circular 82, which 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. Additional Information D. Exchange Controls Regulations relating to Foreign Exchange, Taxation and Dividend Distribution Taxation and Dividend Distribution. 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, Jingtian & Gongcheng, 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.

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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, or 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. 601 issued by SAT in October 2009, or Circular 601, 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. In June 2012, SAT further promulgated the Announcement on Determining the Beneficial Owners in Tax Agreement, or 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, including primarily Bravo Work, China Index Academy and China Home Holdings (HK) Limited. Neither we nor Jingtian & Gongcheng, our PRC legal counsel, is certain as to whether it is more likely than not that PRC tax authorities would require or permit Bravo Work, China Index Academy and China Home Holdings (HK) Limited to be treated as PRC resident enterprises. To the extent that Bravo Work, China Index Academy and China Home Holdings (HK) Limited are each considered a non-resident enterprise under the Avoidance of Double Taxation Arrangement, dividends derived by Bravo Work, China Index Academy and China Home Holdings (HK) Limited from our PRC subsidiaries may be subject to a maximum withholding tax rate of 10.0%. See Item 10. Additional Information E. Taxation Regulation of Foreign Exchange, Taxation and Dividend Distribution Taxation and Dividend Distribution.

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.

***SouFun Media, SouFun Network, Beijing Zhong Zhi Shi Zheng and the relevant consolidated controlled entities may be subject to fines and legal or administrative sanctions in connection with dividend distributions we made between December 2007 and June 2009.***

On December 12, 2007, our then board of directors adopted resolutions to declare dividends in the aggregate of RMB350.0 million to our shareholders. Our then existing shareholders subsequently agreed to reduce the amount of the dividends to RMB300.0 million. On February 20, 2009, our then board of directors adopted resolutions to declare additional dividends in the aggregate of RMB300.0 million to our shareholders. Following these resolutions, between December 2007 and June 2009, we directed our wholly-owned subsidiaries, SouFun Media and SouFun Network, and the entities controlled by SouFun Media and SouFun Network, including our indirect subsidiary Beijing Zhong Zhi Shi Zheng and consolidated controlled entities such as Beijing Internet, Beijing Technology, Beijing China Index, Beijing Advertising and Beijing JTX Technology, to pay an aggregate of RMB300.2 million in dividends payable by us to accounts in China designated by our then existing shareholders for the receipt of such dividend payments. These dividend payments are recorded on SouFun Media's and SouFun Network's accounts as other receivables due from us and are deemed as non-interest bearing loans from SouFun Media or SouFun Network to us, which are treated in China as loans to an overseas borrower. We repaid RMB40.0 million to SouFun Media in 2011 and the balance of these other receivables due from us was RMB260.2 million as of December 31, 2012. The dividend payments paid through Beijing Zhong Zhi Shi Zheng or the relevant consolidated controlled entities were recorded on SouFun Media's and SouFun Network's accounts as other payables to Beijing Zhong Zhi Shi Zheng and such consolidated controlled entities, which are treated in China as loans from domestic lenders.





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Pursuant to the General Lending Code implemented in August 1996 by the People's Bank of China, or 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 is or was at the relevant time a PRC-qualified financial institution as defined under the General Lending Code, 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. If PBOC instructs these entities to terminate such overseas loans and domestic loans, we have to fully repay the overseas loans from SouFun Media and SouFun Network, and SouFun Media and SouFun Network have to fully repay the domestic loans to Beijing Zhong Zhi Shi Zheng and the relevant consolidated controlled entities.

Moreover, pursuant to the PRC Foreign Currency Administration Regulations promulgated by the State Council in January 1996, as amended, 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. Accordingly, 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 SouFun Media and SouFun Network to register the overseas loans to us and require us to 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 SouFun Media and SouFun Network 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, SouFun Media or SouFun Network will not be subject to such warnings, penalties or other administrative penalties resulting from the 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 SouFun Media, SouFun Network, Beijing Zhong Zhi Shi Zheng and the relevant consolidated controlled entities for the deemed interest income with regard to the arrangements for the overseas and domestic loans. The deemed interest rate would be determined by reference to the lending rate over the relevant period published by 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 SouFun Media, SouFun Network, Beijing Zhong Zhi Shi Zheng and the relevant variable interest entities for any deemed interest income with respect to these loans. 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 legislation over the past 30 years has significantly enhanced the protections afforded to various forms of foreign investment in China. Our PRC operating subsidiaries include several wholly-foreign-owned enterprises, including primarily SouFun Media, SouFun Network and Beijing Hong An Tu Sheng. These PRC 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 sector. 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.

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### ***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.

Our PRC subsidiaries currently may purchase foreign currencies for settlement of current account transactions, including payment of dividends to us. Our PRC subsidiaries may also retain foreign exchange in their current accounts, subject to a ceiling approved by SAFE, to satisfy foreign exchange liabilities or to pay dividends. 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 SAFE. 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.***

In October 2005, SAFE issued the Circular on Issues Relating to the Administration of Foreign Exchange in Fundraising and Return Investment Activities of Domestic Residents Conducted via Offshore Special Purpose Companies, which became effective as of November 1, 2005 and was supplemented by an implementing notice issued on November 24, 2005. We refer to them collectively as Circular 75. To further clarify and simplify the implementation of Circular 75, SAFE issued the Implementing Rules Relating to the Administration of Foreign Exchange in Fund-Raising and Round-trip Investment Activities of the Domestic Residents Conducted via Offshore Special Purpose Companies, or Circular 19, effective on July 1, 2011, and the Circular on Further Improving and Adjusting the Policies on Administration of Foreign Exchange under Direct Investment, or Circular 59, effective on December 17, 2012. Under Circular 75, Circular 19 and Circular 59, PRC residents and citizens must register with the relevant local SAFE branch prior to their establishment or control of an offshore entity established for the purpose of an overseas equity financing involving onshore assets or equity interests held by them, and must also make filings with SAFE thereafter upon the occurrence of certain material capital changes. The registration and filing procedures under Circular 75 are prerequisites for other approval and registration procedures necessary for capital inflow from the offshore entity, such as inbound investments or shareholders' loans, or capital outflow to the offshore entity, such as the payment of profits or dividends, liquidating distributions, equity sale proceeds or the return of funds upon a capital reduction.

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The interpretation and implementation of Circular 75 involve significant uncertainty. 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 75 applies to us or Mr. Mo. We cannot predict how Circular 75 will affect our business operations or future strategies. If SAFE determines that Circular 75 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 75 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 75. If Circular 75 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 75 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.

### ***Recently enacted regulations in the PRC may make it more difficult for us to pursue growth through acquisitions.***

On August 8, 2006, six PRC regulatory agencies promulgated the Regulations on Mergers and Acquisitions of Domestic Companies by Foreign Investors, or the M&A Rules, which became effective on September 8, 2006 and was amended on June 22, 2009. The M&A Rules and recently issued regulations and rules concerning mergers and acquisitions established additional procedures and requirements that could make merger and acquisition activities by foreign investors more time-consuming and complex. For example, the M&A Rules require that the Ministry of Commerce be notified in advance of any change-of-control transaction in which a foreign investor takes control of a PRC domestic enterprise 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 the Ministry of Commerce in August 2011, mergers and acquisitions by foreign investors involved in an industry related to national security are subject to strict review by the Ministry of Commerce. 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 the Ministry of Commerce 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 approval from the Ministry of Commerce, 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, or the Stock Option Rule. Under the Stock Option Rule, a Chinese entity's directors, supervisors, senior management officers, other staff, or individuals which have an employment or labor relationship with such Chinese entity 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 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 rules, we and our PRC option holders may be subject to fines and other legal or administrative sanctions. See Item 4. Information on the Company B. Business Overview Regulation Regulations relating to Employee Share Options.

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

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



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Inspection 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 auditor 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 procedure. As a result, investors may be deprived of the benefits of PCAOB inspections.

***Recent action being taken by the SEC against the PRC affiliates of the Big Four accounting firms, including our auditor, could create additional uncertainty about the status of audits of U.S.-listed PRC-based companies and may materially and adversely affect the liquidity and value of our ADSs.***

On December 3, 2012, the SEC announced that it had begun administrative proceedings against the China affiliates of each of the Big Four accounting firms, including our auditor, and another large U.S. accounting firm for refusing to produce audit work papers and other documents related to China-based companies under investigation by the SEC for potential accounting fraud against U.S. investors. The SEC charged the firms with violating the Securities Exchange Act and the Sarbanes-Oxley Act, which requires foreign public accounting firms to provide the SEC upon request with audit work papers involving any company trading on U.S. markets. If this proceeding by the SEC ultimately results in actions or sanctions that affect the ability or right of these accounting firms, including our auditor, to engage in audits of US-listed PRC-based companies, it may make it difficult or impossible for us to engage an auditor qualified to audit accounts for U.S.-listed companies and make us unable to comply with SEC rules and regulations and the listing standards of securities exchanges in the United States, which would materially and adversely affect the liquidity and value of our ADSs and force us to de-list our ADSs from the NYSE. As the administrative proceedings being taken against these accounting firms is in a preliminary stage, we cannot predict the eventual possible impact on our company.

***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.***

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 is 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.

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, 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. 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. 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.

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*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 within 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. Jingtian & Gongcheng, 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.

*We face risks related to natural disasters, health epidemics and other outbreaks of contagious diseases, including avian flu, SARS and H1N1 flu.*

Our business could be adversely affected by natural disasters, avian flu, SARS, H1N1 flu, also known as swine flu, or other epidemics or outbreaks of contagious diseases. In May 2008, China experienced an earthquake with a reported magnitude of 8.0 on the Richter scale in Sichuan Province, resulting in the death of tens of thousands of people. There have been recent reports of outbreaks of a highly pathogenic avian flu caused by the H5N1 virus, in certain regions of Asia and Europe. In 2005 and 2006, there were reports on the occurrences of avian flu in various parts of China, including a few confirmed human cases. Since April 2009, there have been reports on the occurrences of H1N1 flu in Mexico, the United States, China and certain other countries and regions around the world. An outbreak of avian flu or H1N1 flu in the human population could result in a widespread health crisis that could adversely affect the economies and financial markets of many countries, particularly in Asia. In addition, any recurrence of SARS, a highly contagious form of atypical pneumonia, similar to the occurrence in 2003 that affected China, Hong Kong and certain other countries and regions, would also have similar adverse effects. These natural disasters, outbreaks of contagious diseases and other adverse public health developments in China could severely disrupt our business operations or the real estate and home furnishing and improvement and other home-related markets in China and adversely affect our financial condition and results of operations. We have not adopted any written preventive measures or contingency plans to combat any future natural disasters or outbreaks of avian flu, H1N1 flu, SARS or any other epidemic.

### ***Risks Relating to Our ADSs***

***The market price movement of our ADSs may be volatile.***

The market price of our ADSs may be volatile and subject to wide fluctuations. Among the factors that could affect the price of our ADSs 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;

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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 Internet or online 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;

fluctuations in the exchange rates between the U.S. dollar and the Renminbi; and/or

sales or perceived sales of additional ordinary shares or ADSs, including under the Form F-3 registration statement we have on file with the SEC to enable our affiliates to sell their shares.

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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 price of our ADSs.

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

Sales of substantial amounts of our 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 and could materially impair our future ability to raise capital through offerings of our ADSs. As of December 31, 2012, we had 80,350,385 ordinary shares outstanding, including 24,273,689 Class A ordinary shares represented by ADSs. In addition, as of December 31, 2012, there were outstanding options to purchase 9,526,853 of our ordinary shares, including exercisable options to purchase 5,330,891 ordinary shares. All of the ADSs sold in our initial public offering are tradable without any restriction or further registration under the U.S. Securities Act of 1933, as amended, or the Securities Act, unless held by our affiliates as that term is defined in Rule 144 under the Securities Act. All of our shares outstanding prior to our initial public offering are restricted securities as defined in Rule 144 under the Securities Act and, in the absence of registration, may not be sold other than in accordance with Rule 144 under the Securities Act or another exemption from registration. Certain of our shareholders or their transferees and assignees have the right to cause us to register the sale of their shares under the Securities Act upon the occurrence of certain circumstances, and we have a Form F-3 registration statement on file with the SEC to enable them to sell their shares. See Item 6. Directors, Senior Management and Employees Share Ownership Shareholders Agreement and Item 7. Major Shareholders and Related Party Transactions B. Related Party Transactions. Registration of these ordinary shares under the Securities Act would result in such shares becoming freely tradable without any restriction under the Securities Act immediately upon the effectiveness of the registration. Sales of these registered ordinary shares in the public market could cause the price of our ADSs to decline.

***We may need additional capital, and the sale of additional ADSs 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. 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. We cannot assure you that financing will be available in amounts or on terms acceptable to us, if at all.

***As a foreign private issuer, we are permitted to, and we will, rely on exemptions from certain NYSE corporate governance standards 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 and ADSs.***

We are a foreign private issuer under the securities laws of the United States and the rules of the NYSE. 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 NYSE rules, a foreign private issuer is subject to less stringent corporate governance requirements. Subject to certain exceptions, the rules of the NYSE permit a foreign private issuer to follow its home country practice in lieu of the listing requirements of the NYSE. The corporate governance practice in our home country, the Cayman Islands, does not require a majority of our board to consist of independent directors. We currently rely on the exemptions provided by the NYSE to a foreign private issuer and have a board of directors with a majority of non-independent directors, an audit committee comprised of independent directors, a compensation committee with one non-independent director and a combined 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 NYSE corporate governance requirements.

***As a foreign private issuer, we are exempt from certain disclosure requirements under the U.S. Securities Exchange Act of 1934, as amended, 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 U.S. Securities Exchange Act of 1934, as amended, or 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.





**Table of Contents*****We may become a passive foreign investment company, or 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 (i) at least 75% of its gross income for such year is passive income or (ii) 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 that we were a PFIC for the taxable year ended December 31, 2012. The determination of whether a non-U.S. corporation is a PFIC is made on an annual basis after the close of each taxable year. There can be no assurance that we will not be a PFIC for our current taxable year or any future taxable year. The most consequential factor affecting the outcome of annual PFIC determination in current and future taxable 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 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, 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 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, 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. Additional Information E. Taxation U.S. Federal Income Taxation Status as a PFIC.

***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 amended and restated memorandum and articles of association, the Companies Law of the Cayman Islands, or 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, 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.

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**Table of Contents*****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. 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, such as Bravo Work, China Index Academy and China Home Holdings (HK) Limited, may be treated as a PRC resident enterprise for PRC tax purposes. See [Risks Relating 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, or Circular 124.

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 and/or ADSs 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 and/or ADSs and may also materially and adversely affect the price of our ordinary shares and/or ADSs.

***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. 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

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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.

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### ***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.

## **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. Since our inception, we have conducted our operations in China primarily through our PRC subsidiaries and consolidated controlled entities.

In August 2006, Telstra International Holdings Ltd., or Telstra International, an indirect, wholly-owned subsidiary of Telstra Corporation Limited, one of the global Fortune 500 companies, acquired a 55.1% equity interest in our Company.

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, Telstra International sold to General Atlantic, Apax, Next Decade and Digital Link Investments Limited, or Digital Link, all of its shares in our Company in a private sale at the initial public offering price.

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

We have real estate-related content, search services, marketing and listing coverage of over 300 cities across China and have what we believe is one of the largest and most comprehensive nationwide databases of online listings for new, secondary and rental properties as well as home-related products and services in China as measured by geographic coverage. In addition, we began to offer e-commerce services in 2011, including SouFun membership services which extended to 20 cities across China in 2012. Our principal executive offices are located at F9M, Building 5, Zone E, Hanwei International Plaza, Fengmao South Road, Fengtai District, Beijing 100070, the People's Republic of China. Our telephone number at this address is +8610 5631 8000.

### ***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 2012, according to reports issued by CR-Nielsen, an independent market research institution commissioned by us. We also operate one of the leading home furnishing and improvement websites in terms of unique visitors according to research from CR-Nielsen. Through our websites, we provide marketing, e-commerce, listing and other value-added services for China's fast-growing real estate and home-related sectors. Our user-friendly websites support active online communities and networks of users seeking information on, and other value-added services for, the real estate and home-related sectors in China. Our current service offerings include:

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*Marketing services:* We offer marketing services on our websites, 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. A majority of our revenues is derived from marketing services.

*E-commerce services:* We began to offer e-commerce services in 2011, including SouFun membership services and online transaction platform services. We provide both free and paid SouFun membership services to registered members of our SouFun cards. 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 with discounts from our partner developers and dedicated information and related services to facilitate property purchases. Our members pay a specified fee each time in order to be eligible for the discount provided for a particular property. Prior to 2012, our SouFun membership services were categorized as other value-added services and products. In addition, through our [www.jiatx.com](http://www.jiatx.com) website, we offer an online transaction platform and related e-commerce services to home furnishing and improvement vendors in China. Our SouFun membership services have grown rapidly, making e-commerce services the second largest source of our revenues in 2012.

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*Listing services:* We offer basic and special listing services. Our basic listing services are mainly 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 customized marketing programs involving both online listings and offline themed events.

*Other value-added services:* We offer subscription-based access to our information database and research reports and total web solution services. In 2009 and 2010, we also sold other value-added products which consisted of prepaid cards issued by home furnishing and improvement vendors. We ceased the sale of prepaid cards in 2011.

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 about 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.

In 2010, 2011 and 2012, we had revenues of US\$224.5 million, US\$343.8 million and US\$430.3 million, respectively. During the same periods, our net income attributable to our shareholders was US\$63.1 million, US\$101.6 million and US\$151.8 million, respectively. Marketing, e-commerce, listing, and other value-added services and products accounted for 74.7%, nil, 18.0% and 7.3%, respectively, of our revenues in 2010, 71.7%, 7.0%, 19.6% and 1.7%, respectively, of our revenues in 2011, and 58.1%, 23.8%, 16.9% and 1.2%, respectively, of our revenues in 2012.

## **Our Services**

We provide (i) marketing services, (ii) e-commerce services, (iii) listing services, and (iv) other value-added services, to participants in the PRC real estate and home-related sectors primarily through our websites.

### ***Marketing Services***

We target our marketing services toward participants in China's real estate and home-related sectors. Marketing is our most important business. Revenues from marketing services were US\$167.7 million, US\$246.6 million and US\$249.9 million in 2010, 2011 and 2012, respectively, representing 74.7%, 71.7% and 58.1% of our revenues in those years, respectively. Our marketing services are delivered through our website [www.soufun.com](http://www.soufun.com) 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;

home design, decoration and re-modeling companies; and

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banks offering residential mortgage loan products.

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. Additional revenues could often be generated by adding features 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 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.



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### ***E-commerce Services***

We began to offer e-commerce services in 2011, which include SouFun membership services and online transaction platform services. Our revenues generated from e-commerce services were US\$24.2 million and US\$102.2 million in 2011 and 2012, respectively, representing 7.0% and 23.8% of our revenues in those years, respectively.

*SouFun Membership Services.* We provide both free and paid membership services to the registered members of our SouFun cards. 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 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 of 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 apply the discounts to purchase properties. Our members pay a specified fee each time in order to be eligible for the discount provided for a particular property. We do not share our membership fees with our partner developers and do not otherwise pay them in connection with our paid membership services. In 2012, we offered discounts on 709 property developments in 20 cities in China. Our revenues from SouFun membership services totaled US\$22.5 million and US\$102.0 million in 2011 and 2012, respectively, or 6.5% and 23.7% of our total revenues for the same periods.

*Online Transaction Platform Services.* In early 2011, we launched online transaction platform and related e-commerce services for the home furnishing and improvement sector through [www.jiatx.com](http://www.jiatx.com) to third-party merchants of home furnishing and improvement products and services. Products sold on [www.jiatx.com](http://www.jiatx.com) include basic raw materials, furniture, home decoration items, hardware, bathroom accessories and kitchen utensils. We earn a commission, which ranges from 5% to 15% of the sales transaction amount, from the third-party merchants when a transaction is completed through our marketplace and online payment platforms.

### ***Listing Services***

Our listing services include basic listing services and special listing services. Our revenues from listing services were US\$40.4 million, US\$67.1 million and US\$72.9 million in 2010, 2011 and 2012, respectively, representing 18.0%, 19.6% and 16.9% of our revenues in those years, respectively.

*Basic Listing Services.* Basic listing services contributed approximately 80.0%, 82.5% and 76.3% of our listing service revenues in 2010, 2011 and 2012, respectively. Real estate developers, owners, agents, brokers, managers 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 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.

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 service helps 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 increasing amount of our basic listings results in increased user traffic on our websites, 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.

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We update the listing data on our websites 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 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.

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*Special Listing Services.* Special listing services are tailor-made marketing campaigns provided primarily to developers marketing new property developments. Revenues from special listing services were US\$8.1 million, US\$11.8 million and US\$17.2 million in 2010, 2011 and 2012, respectively, representing 20.0%, 17.5% and 23.7% of our listing service revenues in those years, respectively.

Through collaboration among our research, product development and sales personnel, we identify property developments with similar attributes and create a plan for collectively promoting such property developments in a special listing, typically in the form of an online listing combined with an offline event. Once we determine a theme for a special listing program and identify suitable property developments for the program, our marketing and sales staff directly contact the targeted developers to solicit their participation in the special listing program. Each participating developer pays a specified fee to list its development in our special listing section for the duration of the program, which generally ranges from three months to one year. Some examples of our special listings include events and promotions for the top 100 PRC property developers and the China Villa Festival. We organized and hosted, both online and offline, nine consecutive China Villa Festivals from 2004 to 2012, 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. We believe growth in new property developments will continue due to China's growing and increasingly affluent urban population, providing a steady market for our special listing service.

### ***Other Value-added Services and Products***

In addition to marketing, e-commerce and listing services, we also provide other value-added services and products. Revenues from other value-added services and products were US\$16.4 million, US\$5.9 million and US\$5.4 million in 2010, 2011 and 2012, respectively, representing 7.3%, 1.7% and 1.2% of our revenues in those years, respectively.

*Online Content Subscription and Research Services.* We utilize our extensive PRC real estate database and research capabilities to provide online content relating to the real estate sector through our websites, such as real estate database access, research services, real estate industry and company-specific research reports and home furnishing and improvement-related research. Our customers include PRC real estate enterprises as well as government entities. Our research group, China Index Academy, combines our research department resources with an advisory panel of leading real estate experts and industry professionals. The advisory panel provides strategic research guidance, identifies key issues facing the PRC real estate market and acts as an advisory board to the China Index Academy and us. We provide online content subscription services on either a flat-fee subscription basis for database access or a per-project basis for our research services. We charge subscription fees based on the number of databases that the subscriber would like to access.

*Total Web Solution Services.* Total web solution services help our customers initiate their services and products into our websites as well as to design their own websites. Customers interested in targeting consumers in the real estate and home furnishing and improvement and other home-related sectors often request our assistance with website management, establishing website traffic tracking tools and electronic bulletin board services, a type of online information service that offers a shared environment where visitors to the website can leave messages, retrieve messages, engage in online discussions and exchange information with other visitors. We believe our total web solution services enable us to enhance our relationship with our customers by providing an additional avenue through which we can cross-sell other services, such as marketing, e-commerce and listing services. We believe our total web solution services also serve as an effective tool to educate and train our customers in marketing strategies. Such training is particularly important for customers located in smaller cities where local Internet penetration and sophistication may be lower than the larger and more developed cities in China.

*Prepaid Cards.* In addition to the above services, we also sold prepaid cards issued by home furnishing and improvement vendors in 2009 and 2010. We provided marketing services to these home furnishing and improvement vendors in exchange for their prepaid cards in those years due to the impact of the global financial crisis on their ability to pay for our services. The prepaid cards contained monetary value in denominations ranging from RMB20 to RMB2,000 that could only be used to purchase certain products from the vendors' specified stores and were not redeemable for cash. We re-sold the prepaid cards, typically at a discount to their face value, to external parties. We ceased accepting prepaid cards as payment for our marketing services after July 2010 and sold all the remaining prepaid cards by the end of 2010. In 2009 and 2010, revenue from prepaid card business was US\$5.4 million and US\$13.5 million, respectively.

### ***Our Websites***

Our principal website, [www.soufun.com](http://www.soufun.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. According to CR-Nielsen, our website received a monthly average of approximately 28.1 million unique visitors in the fourth quarter of 2012. In addition, we had about 30 million registered members of our [www.soufun.com](http://www.soufun.com) website and had about 12 million registered members of our SouFun card as of December 31, 2012.

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As of December 31, 2012, our [www.soufun.com](http://www.soufun.com) website contained contents covering more than 320 cities across China, as well as Hong Kong, Taiwan, Singapore and Vancouver, Canada. This website also contains links to other specialized real estate and home furnishing and improvement websites, including our [www.jiatx.com](http://www.jiatx.com) website, our e-commerce transaction and payment platform.

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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.soufun.com](http://www.soufun.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 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.soufun.com](http://www.soufun.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 about 100 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.soufun.com](http://www.soufun.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.

In early 2011, we launched our e-commerce services for the home furnishing and improvement sector through [www.jiatx.com](http://www.jiatx.com). We offer an online transaction platform and related e-commerce services to suppliers of home furnishing and improvement products and services. Products sold on [www.jiatx.com](http://www.jiatx.com) include basic suppliers of home raw materials, furniture, home decoration items, hardware, bathroom accessories and kitchen utensils.

### ***Real Estate Database and Information***

Supported by our research group, 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.

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### ***Online Residential Communities***

We offer online residential community services through our website, [www.soufun.com](http://www.soufun.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, SouFun 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 National Coverage**

Currently we provide real estate-related content, search services, marketing and listing coverage of more than 320 cities across China and have on-the-ground personnel located about 100 offices across China. In addition, we began to offer e-commerce services in 2011, and our SouFun membership services had already extended to 20 cities as of December 31, 2012. We believe this extensive nationwide coverage enhances our national brand image, and enables us to deliver consistent and quality marketing, e-commerce and listing services to customers. The real estate industry is inherently a local industry, and online marketing and online listing 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 marketing, e-commerce and listing services to local conditions and the needs of local real estate developers and real estate professionals, and to provide close after-sale 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.

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We also offer limited listing and other information relating to the real estate markets in Hong Kong, Taiwan, Singapore and Vancouver, Canada, but these markets do not constitute a material part of our business. The following map sets forth the cities we currently cover in mainland China:



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As part of our growth strategy, we also intend to expand our coverage areas to include additional cities across China. The expansion will focus on cities with populations of over one million, strong potential for GDP growth and housing development, high attractiveness for real estate and home furnishing and improvement investment, as measured by the scale of property development, and stable Internet infrastructure. We believe this expansion could further solidify our reputation as one of China's leading real estate and home-related Internet companies, as well as provide us with new markets and sources of revenue.

### **Brand Awareness and Marketing**

We believe our comprehensive listing database has made [www.soufun.com](http://www.soufun.com) a leading destination website for real estate participants in China. In addition, we seek to promote the SouFun brand 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 the SouFun brand has 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 marketing, e-commerce and listing services is rooted in our ability to commercialize various aspects of our databases and industry knowledge to create new and innovative services for our marketing, e-commerce and listing 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. For example, in March 2012, we hosted our ninth 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 nine years that we held the event.

### ***Portal Collaboration Arrangements***

We work with well-known Internet portals to attract additional users to our websites. 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 larger Chinese-language portals to generate user traffic to our website.

### ***Advertising and Marketing***

We conduct general marketing and advertising activities to promote awareness of the SouFun brand. 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. Currently, our sales and marketing team consist of approximately 3,203 persons located in about 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 home group, secondary and rental properties group, home furnishing and improvement group and research group. 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.



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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: (i) mandatory entrance training for each new sales and marketing employee during a three-month probationary period; (ii) rotation training that aims to rotate every sales and marketing employee in different posts for a certain period of time; and (iii) 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 has been effective in identifying, motivating and retaining strong performers.

We also have key account sales representatives in Beijing that serve our approximately 80 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 10 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. Key Information D. Risk Factors Risks Relating 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.



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### **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 marketing, e-commerce and listing 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 CR-Nielsen and Data Center of China Internet. 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 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 include:

real estate and home furnishing and improvement websites offering listing and marketing services in China including real estate websites 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 focused on real estate research services in China; and

online listing service providers, including general-purpose Internet portals and regional websites 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, Anjuke.com, Tencent's fangqq.com, 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 marketing, e-commerce, listing 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 320 urban real estate markets in China as of December 31, 2012, 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.

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

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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 application for the SouFun trademark for certain industry categories in China conflicts with existing registrations of or applications for similar trademarks. We are in the process of resolving these conflicts. The process may take several years or longer. See Item 3. Key Information D. Risk Factors Risks Relating 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.

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We own 129 registered copyrights and own or license 147 registered trademarks in the PRC. We have 21 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, Australia, France, Japan, Singapore, Spain, the United Kingdom and the United States.

We currently own or license 398 registered domain names, including our official website, [www.soufun.com](http://www.soufun.com), and domain names registered in connection with [www.jiatx.com](http://www.jiatx.com) and [www.landlist.cn](http://www.landlist.cn).

We have two patent applications relating to database maintenance and computer data backup under review by the State Intellectual Property Office of the People's Republic of China.

## **Facilities**

Our principal executive offices are located at F9M, Building 5, Zone E, Hanwei International Plaza, Fengmao South Road, Fengtai District, Beijing 100070, the People's Republic of China, with approximately 14,640 sq.m. of office space. We moved to this location in January 2013. As of December 31, 2012, we leased properties with an aggregate GFA of approximately 59,920 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 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. Key Information D. Risk Factors Risks Relating 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 GFA of 325,000 square feet at 72 Wall Street, New York. The building was the former training center of American International Group, Inc. (AIG). We acquired the building from Sahn Eagle LLC, a third party, in two transactions. We acquired from Sahn Eagle LLC a majority of the building with a GFA of approximately 237,250 square feet for approximately US\$46.0 million in July 2011. In October 2011, we acquired the remaining space of approximately 87,750 square feet in the building for an additional approximately US\$14.7 million from Sahn Eagle LLC. We plan to use the building as our global training center.

We own certain commercial properties of approximately 3,111 sq.m. in Sanya, Hainan Province, China. We acquired 2,913 sq.m. and 198 sq.m. of these properties for RMB82.5 million (approximately US\$13.1 million) and RMB5.6 million (approximately US\$0.9 million) in two transactions pursuant to certain purchase agreements which we entered into with the previous owner of these properties, Beijing Hengxinjiahua Investment Consultancy Limited, in March and June 2012, respectively. We plan to use these properties as our local office in Hainan as well as for internal training purposes.

We own a portion of a building known as the BaoAn Building located at 800 Dongfang Road, Pudong, Shanghai. In December 2012, we entered into an agreement to acquire this property for our Shanghai headquarters through the acquisition of the entire equity interests in three companies that own and operate such property from China BaoAn Group Co., Ltd., a third party Chinese company, and its affiliated companies, for RMB800 million (approximately US\$127.3 million) in cash. 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.

## **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. See Item 3. Key Information D. Risk Factors Risks Relating to Our Business We may be subject to intellectual property infringement or misappropriation claims by third parties, which may force us to incur substantial legal expenses and, if determined adversely against us, could materially disrupt our business.





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### **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.

### ***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. 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. 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,

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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 Notice on Strengthening the Administration of Foreign Investment in Operating Value-added Telecommunications Business, or 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.

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### *Advertising Services*

The principal regulations governing foreign ownership in advertising businesses in China include:

The Foreign Investment Industrial Guidance Catalog;

The Administrative Regulations on Foreign-invested Advertising Enterprises; and

The Circular Regarding Investment in the Advertising Industry by Foreign Investors through Equity Acquisition.

These regulations require foreign entities that directly invest in the PRC advertising industry to have at least a two-year track record with a principal business in the advertising industry outside China. Since December 2005, foreign investors have been permitted to directly own a 100% interest in advertising companies in China, but such foreign investors are also required to have at least a three-year track record with a principal business in the advertising industry outside China. PRC laws, rules and regulations do not permit the transfer of any approvals or licenses, including business licenses containing a scope of business that permits engagement in the advertising business. In the event we are able to qualify to acquire the equity interest in Beijing Advertising, Beijing Internet, Beijing Technology, Beijing JTX Technology, Shanghai Advertising, Shanghai JBT, Beijing China Index, Shanghai China Index, Tianjin JTX Advertising, Beijing Li Tian Rong Ze and Beijing Yi Ran Ju Ke under the rules allowing complete foreign ownership, these PRC operating companies would continue to exist as the operators of our advertising business consistent with the current regulatory requirements. However, as a holding company, we have not been involved in advertising outside China for the required number of years.

As a result of current PRC laws, rules and regulations that impose substantial restrictions on foreign investment in the Internet and advertising businesses 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, Jingtian & Gongcheng, 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 Jingtian & Gongcheng, our PRC legal counsel.

### *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 (2000);

The Catalog of Classes of Telecommunications Business;

The Administrative Measures for Telecommunications Business Operating Licenses; and

The Internet Information Services Administrative Measures.

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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.

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

The MIIT Notice requires that a value-added telecommunications business operator (or its shareholders) must own domain names and trademarks used by it in the value-added telecommunications business, and have premises and facilities appropriate for such business. To comply with the MIIT Notice, Beijing Technology, a consolidated controlled entity, has been registered as the owner or is applying to be the owner of the Chinese and English dual-language SouFun trademark in several categories and obtained the [www.soufun.com](http://www.soufun.com) domain name. Beijing China Index, another consolidated controlled entity, has also been registered as the owner or is applying to be the owner of the trademark for the Chinese characters of DiGua in several categories and obtained the [www.landlist.cn](http://www.landlist.cn) domain name. All of our trademarks and domain names will be owned directly by our consolidated controlled entities.

Furthermore, according to the Tentative Measures of Internet Publication Administration, jointly issued by the General Administration of Press and Publication and MIIT in June 2002, all entities that are engaged in Internet publication in China must obtain an approval from the General Administration of Press and Publication. Internet publication is broadly defined in the Tentative Measures for Internet Publication Administration to include any act of online dissemination whereby any Internet content provision service provider selects, edits and processes information (including content from books, newspaper, periodicals, audio and video products and electronic publications that have already been formally published or information that has been made public in other media) created by themselves or others and subsequently posts such information on the Internet or transmits it to users via the Internet for browsing, reading, use or downloading by the public.

### *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;

the Administration of Advertising Regulations; and

the Implementation Rules for 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, Tianjin JTX Advertising 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, requiring an Internet content service provider that provides online bulletin board services to register with, and obtain approval from, local telecommunications authorities. Currently, Beijing China Index is operating electronic bulletin board services on [www.landlist.cn](http://www.landlist.cn). Beijing Technology is operating on

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[www.soufun.com](http://www.soufun.com). On November 11, 2005 and November 6, 2006, respectively, 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](http://www.landlist.cn) and [www.soufun.com](http://www.soufun.com), respectively. Beijing JTX Technology and Beijing Advertising also obtained approval for operating electronic bulletin board services on [www.jiatx.com](http://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.

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

Internet content in China is also regulated and restricted from a state security standpoint. Based on a law 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 require Internet content service providers to maintain an adequate system that protects the security of user information, and the Administrative Regulations on Internet Bulletin Board Services adopted by MIIT in October 2000 require Internet electronic bulletin board service providers to protect the security and confidentiality of the personal information of users who use bulletin board services. 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 Jingtian & Gongcheng, 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.

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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 Foreign Investment in Value-Added Telecommunications Industry***

According to the Administrative Rules for Foreign Investment in Telecommunications Enterprises issued by the State Council effective in January 2002, as amended in September 2008, 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.



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***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. Major Shareholders and Related Party Transactions B. Related Party Transactions Structure Contracts. The following diagram illustrates our corporate structure and the place of incorporation of each named entity as of the date of this report:

Equity interest.

Contractual arrangements including Exclusive Technical Consultancy and Services Agreement, Equity Pledge Agreement, Operating Agreement, Shareholders Proxy Agreement, Loan Agreement and Exclusive Call Option Agreement, which provide us with 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.

- (1) Formerly known as China Index Academy Limited.
- (2) Formerly known as Max Impact Investments Limited.

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### ***D. Property, Plant and Equipment***

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

### **ITEM 4A. UNRESOLVED STAFF COMMENTS**

Not applicable.

### **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 U.S. Securities Exchange Act of 1934, as amended, or the Exchange Act. See Forward-Looking Statements. In evaluating our business, you should carefully consider the information provided under Item 3. Key Information D. 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 2012, according to reports issued by CR-Nielsen, an independent market research institution commissioned by us. We also operate one of the leading home furnishing and improvement websites in terms of unique visitors according to research from CR-Nielsen. Through our websites, we provide marketing, e-commerce, listing and other value-added services for China's fast-growing real estate and home-related sectors. Our user-friendly websites support active online communities and networks of users seeking information on, and other value-added services for, the real estate and home-related sectors in China. Our current service offerings include:

*Marketing services:* We offer marketing services on our websites, 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. A majority of our revenues is derived from marketing services.

*E-commerce services:* We began to offer e-commerce services in 2011, including SouFun membership services and online transaction platform services. We provide both free and paid SouFun membership services to registered members of our SouFun cards. 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 with discounts from our partner developers and dedicated information and related services to facilitate property purchases. Our members pay a specified fee each time in order to be eligible for the discount provided for a particular property. Prior to 2012, our SouFun membership services were categorized as other value-added services and products. In addition, through our [www.jiatx.com](http://www.jiatx.com) website, we offer an online transaction platform and related e-commerce services to home furnishing and improvement vendors in China. Our SouFun membership services have grown rapidly, making e-commerce services the second largest source of our revenues in 2012.

*Listing services:* We offer basic and special listing services. Our basic listing services are mainly 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 customized marketing programs involving both online listings and offline themed events.

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*Other value-added services:* We offer subscription-based access to our information database and research reports and total web solution services. In 2009 and 2010, we also sold other value-added products which consisted of prepaid cards issued by home furnishing and improvement vendors. We ceased the sale of prepaid cards in 2011.

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 CR-Nielsen, in the fourth quarter of 2012, our website, [www.soufun.com](http://www.soufun.com), received a monthly average of approximately 28.1 million unique visitors and generated a monthly average of approximately 64.6 million website visits. We currently maintain about 100 offices to focus on local market needs.

Our revenue and net income attributable to our shareholders in 2012 was US\$430.3 million and US\$151.8 million, respectively. Marketing, e-commerce, listing and other value-added services accounted for 58.1%, 23.8%, 16.9% and 1.2%, respectively, of our revenues in 2012.

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### **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 is generated from our marketing 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.

#### ***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.

#### ***Performance of certain geographic areas and urban centers in China***

A substantial portion of our revenues is concentrated in China's major urban centers including Beijing, Shanghai, Chongqing, Chengdu, 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 them to continue to represent a significant portion of our revenues in the near term. We also plan to expand into new geographic areas and sectors. As of December 31, 2012, we had established real estate-related content, search services, marketing and listing coverage of more than 320 cities across China, and our SouFun membership services, which was launched in 2011, had already extended to 20 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.

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

The Internet, online marketing and real estate 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 marketing, e-commerce, listing 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, they enjoy tax holidays 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 and adverse effect on our financial condition, results of operations and profitability. See Item 4. Information on the Company B. 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.

#### ***Market acceptance of our SouFun membership services***

We began offering SouFun membership services in 2011, and our revenues from SouFun membership services totaled US\$22.5 million and US\$102.0 million in 2011 and 2012, respectively, or 6.5% and 23.7% of our total revenues for the same periods. The business of providing SouFun membership services is still relatively new and evolving. Our ability to maintain or increase the number of partner developers or

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property developments for which discounts on purchase price is offered, grow our member base and increase transaction volume to a significant extent depends on increased market acceptance of our SouFun membership services.

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### ***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 our revenue growth 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 provide such services in China through contractual arrangements with our consolidated controlled entities. The equity interests of the consolidated controlled entities are held directly or indirectly by Mr. Mo, our founder and executive chairman, and Mr. Dai, our president and 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. Major Shareholders and Related Party Transactions B. 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.

### **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.

Since January 1, 2012, we have reclassified the revenues from SouFun membership services from other value-added services to e-commerce services in our consolidated statements of comprehensive income. The reclassification 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. In addition, certain comparative amounts have been reclassified to conform with the current year's presentation.

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### ***Revenue Recognition***

We recognize revenues only when there is (i) persuasive evidence of an arrangement; (ii) the sales price is fixed or determinable; (iii) delivery of services has occurred; and (iv) collectability is reasonably assured. We derive revenues from the provision of marketing, e-commerce, listing and other value-added services and products. To the extent that our revenues consist of multiple deliverables, we will recognize such revenues in accordance with applicable accounting policies. Our revenues are recognized on the following bases:

#### ***Marketing Services***

We offer marketing services on our websites, primarily in the form of banner advertisements, floating links, logos and other media insertions. We offer these services to real estate developers and suppliers of home furnishing and improvement and other home-related products and services, which allows such advertisers to place advertisements on particular areas of our websites, in various particular formats and over particular periods of time. Marketing services typically last from several days to one year. The service fees are generally payable in installments over the service period. Delivery of the service occurs upon displaying the agreed service on our websites over the specified service period. Revenue is recognized 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 605-10 Revenue Recognition: Overall.

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. Starting from January 1, 2011, we adopted Accounting Standards Update ( ASU ) No. 2009-13 ( ASU 2009-13 ), Multiple-Deliverable Revenue Arrangements . We adopted this guidance on a prospective basis applicable for transactions originating or materially modified after the date of adoption. This guidance changed the criteria for separating units of accounting in multiple-element arrangements and the way in which an entity is required to allocate the revenue to these units of accounting.

Prior to the adoption of ASU 2009-13, as we sold our marketing services over a broad price range, there was a lack of objective and reliable evidence of fair value for each deliverable included in the arrangement. Accordingly, a combined unit of accounting was used pursuant to ASC 605-25, Revenue Recognition Multiple-Element Arrangements , whereby revenue was recognized ratably over the performance period of the last deliverable in the arrangement. Revenue from marketing services of US\$235,860 would have been recognized in 2011 if those arrangements entered into or materially modified after the adoption of ASU 2009-13 were still being recognized on a straight-line basis over the performance period of the last deliverable.

Subsequent to the adoption of ASU 2009-13, we account for each deliverable in the arrangement as separate unit of accounting. Revenue is 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 in its vendor-specific objective evidence ( VSOE ) if available, third party evidence ( TPE ) if VSOE is not available, or best estimate of selling price ( BEBP ) 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 BEBP for that deliverable because neither VSOE nor TPE exist. In determining the BEBP 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. For contracts entered into prior to December 31, 2010 without material modification in 2011, we continue to recognize revenue on a straight-line basis over the performance period of the last deliverable.

We updated the BEBP for each deliverable during the year ended December 31, 2012. In accordance with ASC 250, Accounting Changes and Error Corrections , changes in the determination of the BEBP are considered a change in accounting estimate and are accounted for on a prospective basis. The effect of changes in the BEBP on the allocation of arrangement consideration was insignificant.

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### *E-Commerce Services*

We began to provide e-commerce services in 2011 by operating (i) SouFun membership services which enable paid members to purchase specified properties from our partner real-estate developers at a discount significantly greater than the face value of the membership fees charged by us, (ii) an online marketplace platform which enables third-party merchants to sell home furnishing products to customers online, and (iii) an online payment platform which enables third-party merchants to transact with customers online.

For (i), the discount is either a fixed amount off or a fixed percentage of the price of a specified property, or a combination of both. The fees paid by customers are refundable before a purchase of the specified properties at a discount is made by the customers. Revenue is recognized 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. Cash received in advance of the purchase of specified properties are recorded as customers' refundable fees. Beginning January 1, 2012, we have reclassified the revenue from SouFun membership services from other value-added services to e-commerce services in our consolidated statements of comprehensive income. The reclassification 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.

For (ii) and (iii), we earn a commission, which ranges from 5% to 15% of the sales transaction amount, from the third-party merchants when a transaction is completed through our marketplace and online payment platforms. When a customer places an order for home furnishing products with a third-party merchant through our marketplace platform, the sales price and the shipping charge for the sale transaction are confirmed. Delivery of goods to a consumer will be processed by the third-party merchant after payment is made through our online payment platform. The sales transaction is completed and we recognize the commission earned as e-commerce services revenue upon confirmation of receipt of the home furnishing products by the consumer and remittance of the net payment to the third-party merchant through our marketplace and online payment platforms.

*Listing Services.* Listing services comprise basic listing and special listing services. We offer our basic and special listing services to real estate agents, brokers, developers, property owners, property managers and others seeking to sell or rent new or secondary residential and commercial properties.

*Basic Listing Services.* Basic listings entitle our customers to post and change information for properties, home furnishings and other related products and services in a particular area on our websites for a specified period of time, typically ranging from one to 36 months, in exchange for a fixed fee. Delivery of services occurs by making access to our websites available for posting by the customers over the specified listing period. In accordance with ASC 605-25, revenue is recognized ratably over the duration of the service period as the basic listing services are being delivered.

*Special Listing Services.* Special listing services are multiple element arrangements comprising website listing services and other coordination of promotional themed events, such as physical forum discussion or a banquet gathering, each with the special listing as the theme, where our customers promote their products or services to a live audience. These offline services do not have standalone value and are always sold with special listing services. Delivery of services occurs by making access to the websites available for posting by the customers over the specified listing period and upon completion of the offline services. As the offline services do not have standalone value, a combined unit of accounting is used pursuant to ASC 605-25 whereby revenue is recognized upon delivery of the final deliverable, which is recognized ratably over the duration of the special listing service period.

### *Other Value-added Services and Products*

We generate revenues from 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 also generated revenues from sales of other value-added products, which included prepaid cards, in 2009 and 2010. 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.



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In 2009 and 2010, we sold certain prepaid cards issued by certain home furnishing and improvement vendors. We provided marketing services to these home furnishing and improvement vendors in exchange for their prepaid cards. The significant terms of these transactions were stated in written contracts between us and the vendors. The prepaid cards contained monetary values of varying denomination from RMB20 to RMB2,000 that could be used to purchase certain products from the vendors' specified stores. The prepaid cards were not redeemable for cash from the vendors. We sold the prepaid cards, typically at a discount to their stated monetary value, to external parties. The exchange of marketing services for prepaid cards was accounted for in accordance with ASC 845, *Nonmonetary Transactions*. In accordance with ASC 845-10-30, the nonmonetary transaction is measured based on fair value of the assets (or services) involved. The fair value of the services to be provided was not determinable within a reasonable range because the service fees received had historically varied widely. The fair value of the prepaid cards was determinable by reference to the historical cash proceeds received upon the sale of such cards to customers. We reassessed our fair value estimate periodically to reflect changes experienced in the selling prices of the prepaid cards. Service revenue from this exchange was measured based on the fair value of the prepaid cards received and was recognized in accordance with the revenue model stated above in

Marketing services. Revenue from sales of prepaid cards was recognized when the prepaid cards were delivered to the customers and cash was received. We ceased the sale of prepaid cards in 2011.

Our business is subject to business taxes, 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 business taxes, value-added taxes, surcharges and cultural construction fees are presented as cost of revenues in the consolidated statements of comprehensive income. Business taxes, value-added taxes and related surcharges and cultural construction fees for 2010, 2011 and 2012 were US\$17.1 million, US\$21.1 million and US\$28.9 million, respectively.

All service fees and prepaid cards received in advance of the provision of services are initially recorded as either deferred revenue or customers refundable fee which is subsequently recognized as revenue when the related services are performed by us.

***Accounts Receivable and Allowance for Doubtful Accounts***

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.

***Share-based Compensation Costs***

We account for share-based awards granted to employees under ASC 718, *Compensation - Stock Compensation: Overall*. 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 the Binomial Option Pricing Model. All grants of share-based awards to employees and directors classified as liability awards 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. ASC 718-10 requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from initial estimates. Share-based compensation expense was recorded net of estimated forfeitures such that expense was recorded only for those share-based awards that are expected to vest.

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***Income Taxes***

We follow the liability method of accounting for income taxes. Under this method, 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. We consider, among other matters, the nature, frequency and severity of current and cumulative losses, forecasts of futures profitability, the duration of statutory carryforward periods, our experience with operating loss and tax credit carryforwards, if any, not expiring.

We apply ASC 740-10, *Income Taxes: Overall*, to account for uncertainties in income taxes. 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 740-10 are classified in our consolidated statements of comprehensive income as income tax expense.

In accordance with the provisions of ASC 740-10, 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 limitations. 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. In addition, 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.

***Recent Accounting Pronouncement***

In February 2013, the Financial Accounting Standards Board ( FASB ) issued ASU 2013-02, *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*. The amendments do not change the current requirements for reporting net income or other comprehensive income in financial statements. However, the amendments require an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For public entities, the amendments are effective prospectively for reporting periods beginning after December 15, 2012. We do not expect the adoption of ASU 2013-2 will have a significant effect on our consolidated financial statements.

**Table of Contents****Results of Operations**

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

	2010		Year ended December 31, 2011		2012	
	Amount	Percentage of revenue	Amount	Percentage of revenue	Amount	Percentage of revenue
(US\$ in thousands, except percentage)						
<b>Revenues</b>						
Marketing services	167,711	74.7%	246,634	71.7%	249,861	58.1%
E-commerce services			24,170	7.0%	102,162	23.8%
Listing services	40,355	18.0%	67,125	19.6%	72,874	16.9%
Other value-added services	3,001	1.3%	5,897	1.7%	5,361	1.2%
Other value-added products	13,423	6.0%				
<b>Total revenues</b>	<b>224,490</b>	<b>100.0%</b>	<b>343,826</b>	<b>100%</b>	<b>430,258</b>	<b>100%</b>
<b>Cost of revenues</b>						
Cost of services	(49,120)	(21.9)%	(66,571)	(19.4)%	(80,863)	(18.8)%
Cost of other value-added products	(12,891)	(5.7)%				
<b>Total cost of revenues</b>	<b>(62,011)</b>	<b>(27.6)%</b>	<b>(66,571)</b>	<b>(19.4)%</b>	<b>(80,863)</b>	<b>(18.8)%</b>
<b>Gross profit</b>	<b>162,479</b>	<b>72.4%</b>	<b>277,255</b>	<b>80.6%</b>	<b>349,395</b>	<b>81.2%</b>
<b>Operating expenses</b>						
Selling expenses	(42,512)	(18.9)%	(67,207)	(19.5)%	(80,056)	(18.6)%
General and Administrative expenses	(41,547)	(18.5)%	(69,611)	(20.3)%	(70,780)	(16.5)%
<b>Operating income</b>	<b>78,420</b>	<b>34.9%</b>	<b>140,437</b>	<b>40.8%</b>	<b>198,559</b>	<b>46.1%</b>
Foreign exchange (loss) gain	(462)	(0.2)%	1	0%	90	0%
Interest income	2,390	1.1%	10,483	3.0%	19,406	4.5%
Interest expenses			(4,026)	(1.2)%	(11,630)	(2.7)%
Realized gain trading securities	282	0.1%	263	0.1%		
Government grants	740	0.3%	1,399	0.4%	1,298	0.3%
Other-than-temporary impairment on available-for-sale security			(4,343)	(1.3)%	(14)	0%
<b>Income before income taxes and noncontrolling interests</b>	<b>81,370</b>	<b>36.2%</b>	<b>144,214</b>	<b>41.9%</b>	<b>207,709</b>	<b>48.3%</b>
Income tax expenses	(18,222)	(8.1)%	(42,617)	(12.4)%	(55,905)	(13.0)%
<b>Net income</b>	<b>63,148</b>	<b>28.1%</b>	<b>101,597</b>	<b>29.5%</b>	<b>151,804</b>	<b>35.3%</b>
Net income (loss) attributable to noncontrolling interests	40	0%	(28)	0%	(6)	0%
Net income attributable to SouFun Holdings Limited's shareholders	63,108	28.1%	101,625	29.5%	151,810	35.3%
<b>Other comprehensive income, net of tax</b>						
Foreign currency translation adjustments	5,344	2.4%	10,839	3.2%	1,378	0.3%
Unrealized (loss) gain on available-for-sale security	(721)	(0.3)%			743	0.2%
			721	0.2%		

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Reclassification adjustment for loss included in net income						
<b>Other comprehensive income, net of tax</b>	4,623	2.1%	11,560	3.4%	2,121	0.5%
<b>Comprehensive income</b>	67,771	30.2%	113,157	32.9%	153,925	35.8%
Comprehensive income (loss) attributable to noncontrolling interests						
	40	0%	(28)	0%	(6)	0%
Comprehensive income attributable to SouFun Holdings Limited's shareholders						
	67,731	30.2%	113,185	32.9%	153,931	35.8%
<b>Share-based compensation expenses included in:</b>						
Cost of revenues	749	0.3%	1,103	0.3%	1,162	0.3%
Selling expenses	1,035	0.5%	1,506	0.4%	1,626	0.4%
General and administrative expenses	3,291	1.5%	4,561	1.3%	4,361	1.0%

**Table of Contents****Revenues**

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

*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 of banners, links, logos and floating signs. In 2010, 2011 and 2012, revenues generated from our marketing services represented 74.7%, 71.7% and 58.1% of our revenues, respectively. We expect revenues from marketing services to remain the most important source of our revenues for the foreseeable future.

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

	2010		Year ended December 31, 2011		2012	
	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	138,030	82.3%	210,719	85.4%	222,963	89.2%
Home furnishing and improvement	28,634	17.1%	33,635	13.7%	25,695	10.3%
Secondary and rental	1,047	0.6%	2,280	0.9%	1,203	0.5%
<b>Total marketing service revenues</b>	<b>167,711</b>	<b>100%</b>	<b>246,634</b>	<b>100%</b>	<b>249,861</b>	<b>100%</b>

New home business accounted for 82.3%, 85.4% and 89.2% of our marketing service revenues in 2010, 2011 and 2012, 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*

We launched our e-commerce services in 2011, including SouFun membership services and online transaction platform services. Our SouFun membership services enable paid members to purchase specified properties from our partner real-estate developers at a discount significantly greater than the face value of the membership fees charged by us. In addition, through our website [www.jiatx.com](http://www.jiatx.com), we offer an online transaction platform and related e-commerce services to home furnishing and improvement vendors in China. Revenues from e-commerce services represented 7.0% and 23.8% of our revenues in 2011 and 2012, respectively.

*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 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 tailor-made marketing campaigns provided primarily to developers marketing new property developments. We identify property developments with similar attributes and create a plan for collectively promoting such property developments in a special listing, typically in the form of an online listing supported or supplemented by an offline event, such as a physical discussion forum or a banquet gathering, with the special listing as the theme.

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

	Year ended December 31,					
	2010		2011		2012	
	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	32,297	80.0%	55,359	82.5%	55,626	76.3%
Special listing	8,058	20.0%	11,766	17.5%	17,248	23.7%
<b>Total</b>	<b>40,355</b>	<b>100%</b>	<b>67,125</b>	<b>100%</b>	<b>72,874</b>	<b>100%</b>

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In 2010, 2011 and 2012, revenues from our listing services represented 18.0%, 19.6% and 16.9% of our revenues, respectively. We believe that listing service revenues will continue to remain a significant revenue source. We expect basic listing service revenue to grow as a percentage of our total revenues as the secondary home market continues to grow in China. We expect special listing service revenue to grow at a slower rate than our total revenues as our special listing customers have been reducing the use of this service while increasing the use of our marketing service.

### *Other Value-added Services and Products*

We also derive revenues from other value-added services and products, including subscriptions to our information database, research reports and total web solution services. In addition, we sold prepaid cards issued by certain home furnishing and improvement vendors in 2009 and 2010. In 2009 and 2010, we provided marketing services to these home furnishing and improvement vendors in exchange for prepaid cards issued by them due to the impact of the financial crisis on their ability of to pay for our services. We sold the prepaid cards, typically at a discount to their face value, to external parties. We ceased accepting prepaid cards in exchange for our marketing services in July 2010 and sold all of the remaining prepaid cards by the end of 2010. In 2010, 2011 and 2012, revenues from other value-added services and products represented 7.3%, 1.7% and 1.2% of our revenues, respectively.

### *Cost of Revenues*

Our cost of revenues includes cost of services and cost of other value-added services and products. 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 marketing, listing and other value-added services and products. Staff costs include salary and benefits paid to members of our editorial staff, customer service personnel and personnel dedicated to servicing and designing websites for our customers. 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 stock 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-foreign-owned enterprises for services provided under our exclusive technical consultancy and services agreements with our consolidated controlled entities. In 2009 and 2010, we also incurred costs of other value-added services and products relating to our sales of prepaid cards. In 2010, 2011 and 2012, our cost of revenues represented 27.6%, 19.4% and 18.8% of our revenues, respectively. Effective September 1, 2012, the PRC Ministry of Finance and the SAT launched a Business Tax to Value Added Tax ( VAT ) Transformation Pilot Program (the Pilot Program ) for certain industries in several regions, including Beijing and Tianjin. With the adoption of the Pilot Program, our revenues in the related regions are no longer subject to business tax but instead are subject to VAT. We do not expect this change to have a significant impact on us because we expect that the net change in the tax rates applicable to us will be insignificant.

### *Operating Expenses*

Our operating expenses consist of selling expenses and general and administrative expenses. In 2010, 2011 and 2012, our operating expenses represented 37.4%, 39.8% and 35.1% 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:

	2010		Year ended December 31, 2011		2012	
	Amount	Percentage of operating expenses	Amount	Percentage of operating expenses	Amount	Percentage of operating expenses
	(US\$ in thousands, except percentage)					
Selling expenses	42,512	50.6%	67,207	49.1%	80,056	53.1%
General and administrative expenses	41,547	49.4%	69,611	50.9%	70,780	46.9%
<b>Total</b>	<b>84,059</b>	<b>100%</b>	<b>136,818</b>	<b>100%</b>	<b>150,836</b>	<b>100%</b>





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### *Selling Expenses*

Our selling expenses primarily consist of staff costs, such as salaries and benefits paid to personnel in our sales and distribution department, 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. 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. We expect our selling expenses to increase in the near future in line with an increase in revenues as we continue to promote our websites and our brand name.

### *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 and other expenses in relation to 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. We expect our general and administrative expenses to increase in absolute amounts as our business continues to grow and remain relatively stable as a percentage of our revenues.

### *Operating Income*

Our operating income was US\$78.4 million, US\$140.4 million and US\$198.6 million in 2010, 2011 and 2012, respectively, representing 34.9% and 40.8% and 46.1% of our revenues in those periods, respectively.

### *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 Income Tax*

Under the current laws of the Cayman Islands, we, China Home Holdings Limited, China Property Holdings Limited and Sou You Tian Xia Holdings Limited 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 Income Tax*

Under the current laws of the British Virgin Islands, Pendiary Investments, Selovo Investments, China Home Holdings (BVI) Limited, China Property Holdings (BVI) Limited, Best Scholar Holdings Limited and Sou You Tian Xia Holdings (BVI) Limited are not subject to tax on income or capital gains. In addition, upon payments of dividends by these companies to their shareholders, no British Virgin Islands withholding tax will be imposed.

#### *Hong Kong Income Tax*

Bravo Work, China Index Academy, SouFun International, China Home Holdings (HK) Limited, China Real Estate Agent University, HK Property Network Limited and Sou You Tian Xia Holdings (HK) Limited are incorporated in Hong Kong and do not conduct any substantive operations of their own. 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, 2012. In addition, upon payment of dividends by these companies to their shareholders, no Hong Kong withholding tax will be imposed.

#### *United States Tax*

Wall Street Index Research Center LLC, Best Scholar Holdings (Delaware) Limited and Best Work Holdings (New York) LLC are incorporated in the United States of America and do not conduct any substantive operations of their own. No provision for the United States of America

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income tax has been made in the financial statements as the subsidiaries in the United States of America have no assessable income for the three years ended December 31, 2012. In addition, no dividend distribution is expected. Thus, withholding tax, if any, will be minimal.

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*PRC Income Tax*

In March 2007, a new enterprise income tax law (the New EIT Law) in the PRC was enacted which became effective on January 1, 2008. The New EIT Law applies a unified 25.0% enterprise income tax (EIT) rate to both foreign invested enterprises and domestic enterprises, unless a preferential EIT rate is otherwise stipulated. A five-year transition period is allowed for those enterprises which enjoyed a reduced EIT rate prior to year 2008 with the transitional EIT rates of 18.0%, 20.0%, 22.0%, 24.0% and 25.0% for years 2008, 2009, 2010, 2011 and 2012, respectively. Thus, the applicable EIT rate for SouFun Shenzhen and SouFun Shanghai was 22.0%, 24.0% and 25.0% for the years 2010, 2011 and 2012, respectively.

On April 14, 2008, the relevant governmental regulatory authorities released further qualification criteria, application procedures and assessment processes for qualifying for the High and New Technology Enterprise (HNTE) status under the New EIT Law which entitles qualified and approved entities for a favorable statutory tax rate of 15.0%.

In April 2009, the State Administration for Taxation (SAT) issued Circular Guoshuihan [2009] No. 203 (Circular 203) stipulating that entities which qualified for HNTE status should apply with the relevant tax authorities to enjoy the reduced EIT rate of 15.0% provided under the New EIT Law starting from the year when the new HNTE certificate becomes effective. In addition, an entity which qualified for HNTE status can continue to enjoy its remaining tax holiday from January 1, 2008 provided that it has obtained the HNTE certificate according to the new recognition criteria set by the New EIT Law and the relevant regulations.

In May and June 2009, SouFun Media, SouFun Network, Beijing Technology, Beijing JTX Technology and Beijing Zhongzhi obtained the new HNTE certificate with effect from January 1, 2009. As approved by the competent tax authority, Beijing Zhongzhi and SouFun Media were entitled to enjoy the reduced EIT rate of 15.0% for years 2009, 2010 and 2011. Beijing Technology, SouFun Network were entitled to continue their remaining tax holiday granted under the old EIT Law of 7.5%, 7.5%, 7.5% for years 2009, 2010 and 2011, respectively. Beijing JTX Technology was entitled to continue its remaining tax holiday granted under the old EIT Law of nil, 7.5%, 7.5%, 7.5% for years 2009, 2010, 2011 and 2012, respectively.

The HNTE certificates for SouFun Network., SouFun Media, Beijing Zhong Zhi., and Beijing JTX Technology expired on May 27, 2012. The HNTE certificates for Beijing Technology expired on June 12, 2012. We applied for renewal of the HNTE certificates for these subsidiaries, which would enable them to continue qualifying for the preferential tax rates in years 2012, 2013 and 2014. The approval for the renewal of the HNTE certificates for the five subsidiaries was published on the Beijing Municipal Science & Technology Commission's website between April and October 2012 and we received the renewed HNTE certificates between May and November 2012.

The SAT subsequently issued Circular Guoshuihan [2010] No.157 (Circular 157) in April 2010 to further clarify the applicable EIT rate for entities which qualified for HNTE status. According to Circular 157, entities which qualified for HNTE status should elect one of the following two EIT treatments and no changes can be made once the election is made:

- 1) The applicable EIT rate is 15.0% but the remaining tax holiday should no longer be enjoyed; or
- 2) The remaining tax holiday could be enjoyed based on the transitional EIT rates, that is, 18.0%, 20.0%, 22.0% 24.0% and 25.0% for the years from 2008 to 2012.

The effective date of Circular 157 was January 1, 2008. As a consequence of Circular 157, we elected to apply the second EIT treatment. The applicable EIT rate for SouFun Network and Beijing Technology was 10.0%, 11.0% and 12.0% for years 2009, 2010 and 2011, respectively, whilst the applicable EIT rate for Beijing JTX Technology was nil, 11.0% and 12.0% for years 2009, 2010 and 2011, respectively.

During the year ended December 31, 2011, the Beijing Municipal State Tax Bureau clarified the tax policy with the SAT in relation to the three-year exemption, three-year 50.0% reduction tax holiday that was implemented for entities which qualified for the HNTE status in the Zhongguancun Science Park (ZSP) and reached a verbal agreement with the SAT that Circular 157 is not applicable to the entities registered in the ZSP. As a result, the applicable income tax rates for SouFun Network, Beijing Technology, and Beijing JTX Technology, our subsidiaries registered in the ZSP which qualified for the HNTE status, should be 7.5%, 7.5%, 7.5% for years 2010 and 2011 and 15.0%, 15.0%, 7.5% for year 2012, respectively. Accordingly, income tax expenses of US\$7.5 million were reversed in the year ended December 31, 2011 for the cumulative effect of unnecessarily applying Circular 157 during the years ended December 31, 2009 and 2010. The reversed tax expenses consist of current income tax expenses of US\$4.8 million and deferred tax expenses of US\$2.7 million.

On March 26, 2012, Beijing Hong An and Beijing Tuo Shi, obtained the certificates of Software Enterprise with effect from January 1, 2011. Accordingly, the two subsidiaries are entitled to two-year enterprise income tax exemption for years 2011 and 2012 and reduced enterprise

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income tax rate of 12.5% for years 2013, 2014 and 2015. As a result of the change in tax status of the two subsidiaries, income tax expenses of US\$1.6 million were reversed in the year ended December 31, 2012 for the cumulative effect of applying the statutory tax rate of 25.0% during the year ended December 31, 2011. The reversed tax expenses consist of current income tax expense of US\$1.2 million and deferred tax expense of US\$0.4 million.

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### ***Year Ended December 31, 2012 Compared to Year Ended December 31, 2011***

#### ***Revenues***

Our revenues increased by 25.1% from US\$343.8 million in 2011 to US\$430.3 million in 2012. This increase in revenues was primarily driven by the growth in SouFun membership services and, to a lesser extent, listing services.

*Marketing Services.* Revenues from marketing services increased by 1.3% from US\$246.6 million in 2011 to US\$249.9 million in 2012.

*E-commerce Services.* Revenues from e-commerce services increased substantially from US\$24.2 million in 2011 to US\$102.2 million in 2012. This increase in revenues was primarily due to the increasing market acceptance of the SouFun membership services. We began offering SouFun membership services to property buyers to facilitate their transactions with property developers in the second quarter of 2011.

*Listing Services.* Revenues from our listing services increased by 8.6% from US\$67.1 million in 2011 to US\$72.9 million in 2012, primarily due to a 46.6% increase in revenues from special listing services from US\$11.8 million to US\$17.2 million over the same periods. This increase was primarily due to the general recovery in the secondary real estate market during the second half of 2012 and increased advertising spending from new home developers in tier 1 and tier 2 cities. Revenues from our basic listing services increased 0.5% from US\$55.4 million in 2011 to US\$55.6 million in 2012.

*Other Value-added Services and Products.* Revenues from other value-added services and products decreased by 9.1% from US\$5.9 million in 2011 to US\$5.4 million in 2012, primarily due to our increased focus on our core marketing, e-commerce and listing services.

#### ***Cost of Revenues***

Our cost of revenues as a percentage of our total revenues was 19.4% and 18.8% in 2011 and 2012, respectively. Our cost of revenues increased by 21.5% from US\$66.6 million in 2011 to US\$80.9 million in 2012. This increase was primarily due to (1) an increase in staff costs from US\$25.4 million in 2011 to US\$32.1 million in 2012, due to our hiring of editorial staff and customer service personnel throughout 2012 to support our growth, and (2) an increase in business taxes, value-added taxes, surcharges and meeting expenses from US\$21.2 million in 2011 to US\$28.9 million in 2012 and other expenses primarily due to our business growth.

#### ***Gross Profit and Gross Margin***

As a result of the foregoing, our gross profit increased by 26.0% from US\$277.3 million in 2011 to US\$349.4 million in 2012. Our gross margin increased slightly from 80.6% in 2011 to 81.2% in 2012.

#### ***Operating Expenses***

Our operating expenses increased by 10.2% from US\$136.8 million in 2011 to US\$150.8 million in 2012. The increase in our operating expenses was attributable to increases in both our selling expenses and general and administrative expenses.

*Selling Expenses.* Our selling expenses increased by 19.1% from US\$67.2 million in 2011 to US\$80.1 million in 2012, primarily due to an increase in staff costs. Staff costs increased by 29.2% from US\$30.5 million in 2011 to US\$39.4 million in 2012, mainly due to the hiring of additional sales and marketing personnel to support our business growth.

*General and Administrative Expenses.* Our general and administrative expenses increased by 1.7% from US\$69.6 million in 2011 to US\$70.8 million in 2012. This increase was primarily due to an increase in staff cost, which was substantially offset by a decrease in bad debt expenses. Staff costs increased by 22.4% from US\$27.2 million in 2011 to US\$33.3 million in 2012, primarily due to our hiring of additional staff. Bad debt expenses decreased by 24.6% from US\$16.4 million in 2011 to US\$12.3 million in 2012, primarily due to a recovery of the real estate industry and, we believe, a general improvement in our customers' financial condition in 2012.

#### ***Operating Income and Operating Margin***

As a result of the foregoing, our operating income increased by 41.4% from US\$140.4 million in 2011 to US\$198.6 million in 2012. Our operating margin increased from 40.8% in 2011 to 46.1% in 2012.

*Foreign Exchange Gain (Loss)*

We had a de minimis foreign exchange gain in 2011. We had a foreign exchange gain of US\$0.1 million in 2012, primarily due to the appreciation of the Renminbi.

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### *Interest Income*

Our interest income increased by 85.1% from US\$10.5 million in 2011 to US\$19.4 million in 2012, mainly due to our increased bank deposits and to a lesser extent the higher interest rates for our bank deposits.

### *Interest Expenses*

Our interest expenses increased by 188.9 % from US\$4.0 million in 2011 to US\$11.6 million in 2012, primarily due to our increased bank borrowings in 2012.

### *Other-than-temporary Impairment on Available-for-sale Security*

We had de minimis other-than-temporary impairment on available-for-sale security in 2012, as compared with US\$4.3 million in 2011.

### *Realized Gain Trading Securities*

We had no realized gain in 2012, as compared with US\$0.3 million in 2011.

### *Government Grants*

Our government grants, which consisted of refund on business taxes, totaled US\$1.4 million in 2011 and US\$1.3 million in 2012.

### *Income before Income Taxes and Noncontrolling Interest*

As a result of the foregoing, our income before income taxes and noncontrolling interest increased by 44.0% from US\$144.2 million in 2011 to US\$207.7 million in 2012.

### *Income Tax Expenses*

Our income tax expenses increased by 31.2% from US\$42.6 million in 2011 to US\$55.9 million in 2012, while the effective tax rate decreased from 29.6% in 2011 to 26.9% in 2012. The increase in our tax expenses was principally due to our increased income before income taxes, and the decrease in our effective tax rate was due to greater profit contribution by two subsidiaries with tax exemption status in 2012 and the reversal of previously accrued income tax totaling \$1.6 million resulting from the change in the tax status of these two subsidiaries in 2012.

### *Net (Loss) Income Attributable to Our Noncontrolling Interests*

Net loss attributable to our noncontrolling interests was de minimis, as compared with net loss of US\$0.03 million in 2011.

### *Net Income Attributable to SouFun Holdings Limited Shareholders*

As a result of the foregoing, our net income attributable to our shareholders increased by 49.4% from US\$101.6 million in 2011 to US\$151.8 million in 2012. Our net income margin increased from 29.5% in 2011 to 35.3% in 2012.

## ***Year Ended December 31, 2011 Compared to Year Ended December 31, 2010***

### *Revenues*

Our revenues increased by 53.2% from US\$224.5 million in 2010 to US\$343.8 million in 2011. This increase in revenues reflected growth across our business lines. In addition, we began paid membership services to the registered members of our SouFun cards and online transaction platforms through our [www.jiatx.com](http://www.jiatx.com) website in 2011, which also contributed to the increase in our revenues.

*Marketing Services.* Revenues from marketing services increased by 47.1% from US\$167.7 million in 2010 to US\$246.6 million in 2011. The increase was mainly due to an increase in revenues from new home marketing of US\$72.7 million. Such increase was largely driven by increased real estate developments in level 2 cities and continuing adoption of online marketing by real estate developers. To a lesser extent, the

increase in marketing service revenues was attributable to growth in our home furnishing and improvement business driven by increased advertising spending by service providers.



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*E-commerce Services.* We launched our e-commerce services, consisting of SouFun membership services and online transaction platform services, in 2011, and revenues from e-commerce services amounted to US\$24.2 million in 2011.<sup>(1)</sup>

*Listing Services.* Revenues from our listing services increased by 66.3% from US\$40.4 million in 2010 to US\$67.1 million in 2011, including a 71.4% increase in basic listing service revenues from US\$32.3 million to US\$55.4 million and a 45.5% increase in revenues from special listing services from US\$8.1 million to US\$11.8 million over the same periods. Listing service revenues increased as a percentage of revenues from 18.0% in 2010 to 19.6% in 2011 as a result of increased advertising spending by real estate developers and secondary real estate market in responses to unfavorable market conditions as a result of the PRC government's regulations to curb investment in the real estate industry.

The increase in basic listings revenue was primarily due to an increase of US\$22.9 million in listing service revenues from our secondary and rental business in all levels of cities. The growth in new subscription accounts was largely due to strong demand for listing services supported by growing secondary real estate markets in these cities.

The increase in revenues from special listings mainly resulted from increased advertising spending from new home developers in tier 1 and tier 2 cities.

*Other Value-added Services and Products.* Revenues from other value-added services and products decreased by 64.1% from US\$16.4 million in 2010 to US\$5.9 million in 2011, primarily due to the discontinuation of prepaid card sales in 2010. We did not sell any prepaid cards in 2011 while revenue from sales of prepaid cards totaled US\$13.5 million in 2010.

### *Cost of Revenues*

Our cost of revenues as a percentage of our total revenues was 27.6% and 19.4% in 2010 and 2011, respectively. Our cost of revenues increased by 7.4% from US\$62.0 million in 2010 to US\$66.6 million in 2011. This increase was primarily due to an increase in staff costs from US\$19.1 million in 2010 to US\$25.5 million in 2011, due to our hiring of additional editorial staff and customer service personnel to support our growth. In addition, increases in business taxes, surcharges and meeting expenses and other expenses primarily due to our business growth also contributed to the increase in our cost of revenues. We did not incur any costs of other value-added products in 2011 as we discontinued accepting prepaid cards from customers for our services in 2010, which partially offset the increase in our cost of revenues. Costs of other value-added services and products amounted to US\$12.9 million in 2010.

### *Gross Profit and Gross Margin*

As a result of the foregoing, our gross profit increased by 70.6% from US\$162.5 million in 2010 to US\$277.3 million in 2011. Our gross margin increased from 72.4% in 2010 to 80.6% in 2011, primarily due to our increasing economies of scale.

### *Operating Expenses*

Our operating expenses increased by 62.8% from US\$84.1 million in 2010 to US\$136.8 million in 2011. The increase in our operating expenses was attributable to increases in both our selling expenses and general and administrative expenses.

*Selling Expenses.* Our selling expenses increased by 58.1% from US\$42.5 million in 2010 to US\$67.2 million in 2011, primarily due to an increase in staff costs and traveling and communication expenses. Staff costs increased by 42.3% from US\$21.4 million in 2010 to US\$30.5 million in 2011, mainly due to the hiring of additional sales and marketing personnel to support our business growth. Increases in our advertising and promotion expenses as well as our traveling and communication expenses due to our business growth also contributed to the increase in our selling expenses. Advertising and promotion expenses increased by 126.2% from US\$3.7 million to US\$8.3 million, and traveling and communication expenses increased by 82.9% from US\$6.3 million to US\$11.5 million over the same periods.

*General and Administrative Expenses.* Our general and administrative expenses increased by 67.5% from US\$41.5 million in 2010 to US\$69.6 million in 2011, primarily due to increases in allowance for doubtful accounts and staff costs due to our business growth. Allowance for doubtful accounts increased by 141.2% from US\$6.8 million in 2010 to US\$16.4 million in 2011, primarily reflecting the increase in our revenues, as well as the impact of the PRC government's regulations to curb investment in the real estate industry on our customers' ability to pay us. Staff costs increased by 44.2% from US\$18.9 million in 2010 to US\$27.2 million in 2011, primarily due to our hiring of additional technical and research personnel.

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- (1) Since January 1, 2012, we have reclassified the revenues from SouFun membership services from other value-added services to e-commerce services in our consolidated statements of comprehensive income. The change in presentation has been applied retrospectively to all periods presented.

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*Operating Income and Operating Margin*

As a result of the foregoing, our operating income increased by 79.1% from US\$78.4 million in 2010 to US\$140.4 million in 2011. Our operating margin