

Phoenix New Media Ltd  
Form 20-F  
April 26, 2013  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

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**FORM 20-F**

(Mark One)

- Registration statement pursuant to Section 12(b) or 12(g) of the Securities Exchange Act of 1934**
- or**
- Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2012.**
- or**
- Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
- Shell company report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.**

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

Commission file number 001-35158

**Phoenix New Media Limited**

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(Exact Name of Registrant as Specified in Its Charter)

**Cayman Islands**

(Jurisdiction of Incorporation or Organization)

**Sinolight Plaza, Floor 16**

**No. 4 Qiyang Road**

**Wangjing, Chaoyang District,**

**Beijing 100102**

**People's Republic of China**

(Address of Principal Executive Offices)

**Contact Person: Ms. Qianli Liu**

**Chief Financial Officer**

**(86 10) 6067-6869**

**Sinolight Plaza, Floor 16**

**No. 4 Qiyang Road**

**Wangjing, Chaoyang District,**

**Beijing 100102**

**People's Republic of China**

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

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

Title of Each Class	Name of Each Exchange on Which Registered
American Depositary Shares, each representing eight	New York Stock Exchange, Inc.
Class A ordinary shares Class A ordinary shares, par value \$0.01 per share*	New York Stock Exchange, Inc.

\* Not for trading, but only in connection with the registration of American Depositary Shares representing such Class A ordinary shares pursuant to the requirements of the Securities and Exchange Commission.

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

**None**



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

**None**

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

**299,408,949 Class A ordinary shares were outstanding as of December 31, 2012**

**317,325,360 Class B ordinary shares were outstanding as of December 31, 2012**

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

Note: Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

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 registration was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

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

Yes  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

U.S. GAAP

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

Other

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

Item 17  Item 18

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

Yes  No

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

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

Yes  No

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**PHOENIX NEW MEDIA LIMITED**

**FORM 20-F ANNUAL REPORT**

**FISCAL YEAR ENDED DECEMBER 31, 2012**

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**Conventions that Apply to this Annual Report on Form 20-F**

In this annual report, unless otherwise indicated:

- ADSs refers to our American depositary shares, each of which represents eight Class A ordinary shares, and ADRs refers to the American depositary receipts that may evidence our ADSs;
- affiliated consolidated entities refer to Yifeng Lianhe (Beijing) Technology Co., Ltd., and Beijing Tianying Jiuzhou Network Technology Co., Ltd., each of which is a PRC domestic company. Substantially all of our operations in China are conducted by our affiliated consolidated entities, in which we do not own any equity interest, through our contractual arrangements. We treat the affiliated consolidated entities as variable interest entities and have consolidated their financial results in our financial statements in accordance with generally accepted accounting principles in the United States, or U.S. GAAP;
- China or PRC refers to the People's Republic of China, excluding, for the purposes of this annual report on Form 20-F only, Taiwan, Hong Kong and Macau;
- Class A ordinary shares refer to our Class A ordinary shares, par value US\$0.01 per share;
- Class B ordinary shares refer to our Class B ordinary shares, par value US\$0.01 per share, each of which shall be entitled to 1.3 votes on all matters subject to shareholders' vote;
- Fenghuang On-line refers to Fenghuang On-line (Beijing) Information Technology Co., Ltd., a wholly foreign-owned PRC entity;
- ordinary shares refer to our Class A ordinary shares and Class B ordinary shares, collectively;
- Phoenix TV refers to Phoenix Satellite Television Holdings Limited;
- Phoenix TV (BVI) refers to Phoenix Satellite Television (B.V.I) Holding Limited, a wholly owned direct subsidiary of Phoenix TV, which directly owned 51.5% of our share capital as of March 31, 2013.

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- Phoenix TV Group refers to Phoenix TV and its subsidiaries, not including our company.
- RMB or Renminbi refers to the legal currency of China; \$, dollars, US\$ and U.S. dollars refer to the legal currency of the United States;
- Tianying Jiuzhou refers to Beijing Tianying Jiuzhou Network Technology Co., Ltd., a PRC domestic company and an affiliated consolidated entity;
- we, us, our company, our and Phoenix New Media refer to Phoenix New Media Limited, a Cayman Islands company and its predecessors, subsidiaries, and, unless the context otherwise requires, our affiliated consolidated entities and their subsidiaries in China; and
- Yifeng Lianhe refers to Yifeng Lianhe (Beijing) Technology Co., Ltd., a PRC domestic company and an affiliated consolidated entity.

This annual report contains statistical data that we obtained from various government and private publications, as well as a database issued by Shanghai iResearch Co., Ltd, a third-party PRC consulting and market research firm focused on Internet media markets. We have not independently verified the data in these reports and database. Statistical data in these publications also include projections based on a number of assumptions. If any one of the assumptions underlying the statistical data turns out to be incorrect, actual results may differ from the projections based on these assumptions.

This annual report on Form 20-F includes our audited consolidated financial statements for the years ended December 31, 2010, 2011 and 2012, and as of December 31, 2011 and 2012.

Our ADSs are listed on the New York Stock Exchange under the symbol FENG.

### **PART I**

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

Not required.

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

Not required.

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The selected consolidated financial data shown below should be read in conjunction with Item 5. Operating and Financial Review and Prospects, and the financial statements and the notes to those statements included elsewhere in this annual report on Form 20-F. The selected consolidated statements of comprehensive income data for the years ended December 31, 2010, 2011 and 2012 and the selected consolidated balance sheets data as of December 31, 2011 and 2012 have been derived from our audited consolidated financial statements, which are included elsewhere in this annual report on Form 20-F. The selected consolidated statements of comprehensive income data for the year ended December 31, 2008 and 2009 and the selected balance sheet data as of December 31, 2008, 2009 and 2010 have been derived from our audited financial statements not included in this annual report on Form 20-F. The historical results are not necessarily indicative of results to be expected in any future period.

	For the Years Ended December 31,					
	2008	2009	2010	2011	2012	US\$
	RMB	RMB	RMB	RMB	RMB	
	(In thousands, except for number of shares and per share (or ADS) data)					
<b>Consolidated Statements of Comprehensive Income Data</b>						
<b>Revenues:</b>						
Net advertising revenues	40,259	81,632	204,369	465,824	610,160	97,937
Paid service revenues	182,367	180,715	324,326	484,768	500,844	80,391
<b>Total Revenues</b>	<b>222,626</b>	<b>262,347</b>	<b>528,695</b>	<b>950,592</b>	<b>1,111,004</b>	<b>178,328</b>
<b>Cost of revenues(1)</b>	<b>(163,502)</b>	<b>(170,062)</b>	<b>(299,423)</b>	<b>(554,676)</b>	<b>(631,299)</b>	<b>(101,330)</b>
<b>Gross Profit</b>	<b>59,124</b>	<b>92,285</b>	<b>229,272</b>	<b>395,916</b>	<b>479,705</b>	<b>76,998</b>
<b>Operating expenses(1):</b>						
Sales and marketing expenses	(33,855)	(46,364)	(76,152)	(164,082)	(197,038)	(31,627)
General and administrative expenses	(37,613)	(27,727)	(39,955)	(77,078)	(106,736)	(17,132)
Technology and product development expenses	(17,104)	(16,579)	(31,012)	(69,021)	(91,292)	(14,654)
<b>Total operating expenses</b>	<b>(88,572)</b>	<b>(90,670)</b>	<b>(147,119)</b>	<b>(310,181)</b>	<b>(395,066)</b>	<b>(63,413)</b>
<b>(Loss)/income from operations</b>	<b>(29,448)</b>	<b>1,615</b>	<b>82,153</b>	<b>85,735</b>	<b>84,639</b>	<b>13,585</b>
Other income	1,146	332	2,429	31,886	39,697	6,372
<b>(Loss)/income before tax</b>	<b>(28,302)</b>	<b>1,947</b>	<b>84,582</b>	<b>117,621</b>	<b>124,336</b>	<b>19,957</b>
Income tax benefit/(expense)	149	(1,660)	(10,499)	(15,146)	(16,977)	(2,725)
<b>Net (loss)/income attributable to Phoenix New Media Limited</b>	<b>(28,153)</b>	<b>287</b>	<b>74,083</b>	<b>102,475</b>	<b>107,359</b>	<b>17,232</b>
Accretion to convertible redeemable preferred share redemption value		(14,129)	(206,409)	(773,623)		
Income allocation to participating preferred shares		(287)	(33,093)	(6,172)		
Amortization of beneficial conversion feature		(17,138)				
	<b>(28,153)</b>	<b>(31,267)</b>	<b>(165,419)</b>	<b>(677,320)</b>	<b>107,359</b>	<b>17,232</b>

<b>Net (loss)/income attributable to ordinary shareholders</b>						
Net (loss)/income per Class A and Class B ordinary share:						
Basic	(0.09)	(0.10)	(0.51)	(1.30)	0.17	0.03
Diluted	(0.09)	(0.10)	(0.51)	(1.30)	0.17	0.03
Net (loss)/income per ADS (1 ADS representing 8 Class A ordinary shares):						
Basic	(0.70)	(0.78)	(4.05)	(10.44)	1.38	0.22
Diluted	(0.70)	(0.78)	(4.05)	(10.44)	1.33	0.21
Weighted average number of Class A and Class B ordinary shares used in computing net (loss)/income per share:						
Basic	320,013,175	321,387,913	327,045,493	519,227,660	624,010,270	624,010,270
Diluted	320,013,175	321,387,913	327,045,493	519,227,660	643,748,146	643,748,146
<b>Non-GAAP adjusted net income attributable to Phoenix New Media Limited (2)</b>						
	<b>1,777</b>	<b>10,527</b>	<b>90,644</b>	<b>168,567</b>	<b>114,118</b>	<b>18,317</b>

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Notes:

- (1) Includes share-based compensation as follows:

	For the Years Ended December 31,					
	2008 RMB	2009 RMB	2010 RMB	2011 RMB	2012 RMB	US\$
	(In thousands)					
Allocation of share-based compensation expenses:						
Cost of revenues	2,455	775	854	19,526	958	154
Sales and marketing expenses	6,539	2,904	4,664	18,254	1,423	228
General and administrative expenses	18,374	5,757	10,406	17,470	4,085	656
Technology and product development expenses	2,562	804	637	10,842	293	47
Total share-based compensation expenses included in cost of revenues and operating expenses	29,930	10,240	16,561	66,092	6,759	1,085

- (2) We define adjusted net income attributable to Phoenix New Media Limited, a non-GAAP financial measure, as net income attributable to Phoenix New Media Limited excluding share-based compensation expenses. We believe that separate analysis and exclusion of the non-cash impact of share-based compensation adds clarity to the constituent parts of our performances. We review adjusted net income together with net (loss)/income to obtain a better understanding of our operating performance. We use this non-GAAP financial measure for planning and forecasting and measuring results against the forecast. Using several measures to evaluate our business allows us and our investors to assess our relative performance against our competitors and ultimately monitor our capacity to generate returns for our investors. We also believe it is useful supplemental information for investors and analysts to assess our operating performance without the effect of non-cash share-based compensation expenses, which have been and will continue to be significant recurring expenses in our business. However, the use of adjusted net income has material limitations as an analytical tool. One of the limitations of using non-GAAP adjusted net income is that it does not include all items that impact our net (loss)/income for the period. In addition, because adjusted net income is not calculated in the same manner by all companies, it may not be comparable to other similar titled measures used by other companies. In light of the foregoing limitations, you should not consider adjusted net income in isolation from or as an alternative to net (loss)/income prepared in accordance with U.S. GAAP.

Our non-GAAP adjusted net income attributable to Phoenix New Media Limited is calculated as follows for the periods presented:

	For the Years Ended December 31,					
	2008 RMB	2009 RMB	2010 RMB	2011 RMB	2012 RMB	US\$
	(In thousands)					
Net (loss)/income attributable to Phoenix New Media Limited	(28,153)	287	74,083	102,475	107,359	17,232
Add back: Share-based compensation expenses	29,930	10,240	16,561	66,092	6,759	1,085
Non-GAAP adjusted net income attributable to Phoenix New Media Limited	1,777	10,527	90,644	168,567	114,118	18,317

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	2008 RMB	2009 RMB	As of December 31,		2012 RMB	US\$
			2010 RMB	2011 RMB		
(In thousands)						
<b>Consolidated Balance Sheets</b>						
<b>Data</b>						
Cash and cash equivalents	67,999	223,086	287,173	397,166	916,169	147,055
Term deposit				784,023	235,000	37,720
Accounts receivable, net	21,892	35,318	77,043	202,097	280,987	45,102
Total current assets	106,277	275,059	400,705	1,505,939	1,556,028	249,760
Total assets	144,208	314,302	447,262	1,564,494	1,681,167	269,846
Current liabilities	126,817	115,358	148,554	252,207	306,831	49,250
Total liabilities	127,942	116,931	152,037	257,711	314,827	50,533
Mezzanine equity		183,774	390,183			
Total shareholders equity/(deficit)	16,266	13,597	(94,958)	1,306,783	1,366,340	219,313
Net assets	16,266	197,371	295,225	1,306,783	1,366,340	219,313

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We have translated certain Renminbi, or RMB, amounts included in this annual report on Form 20-F into U.S. dollars for the convenience of the readers. The rate we used for the translations was RMB6.2301= US\$1.00, which was the noon buying rate at certified by the Federal Reserve Bank of New York on December 31, 2012. The translation does not mean that RMB could actually be converted into U.S. dollars at that rate. The following table shows the noon buying rate for RMB express in RMB per US\$1.00.

Period	Period End	Noon Buying Rate		
		Average (RMB per US\$1.00)	Low	High
2008	6.8225	6.9193	7.2946	6.7800
2009	6.8259	6.8295	6.8470	6.8176
2010	6.6000	6.7603	6.8330	6.6000
2011	6.2939	6.4475	6.6364	6.2939
2012	6.2301	6.2990	6.3879	6.2221
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	6.2108	6.2154	6.2246	6.2105
April (through 19, 2013)	6.1772	6.1927	6.2078	6.1720

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

**B. Capitalization and Indebtedness**

Not required.

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

Not required.

**D. Risk Factors**

**Risks Relating to Our Business and Industry**

*We have a limited operating history, which makes it difficult to evaluate our business.*

We have a limited operating history for you to evaluate our business, financial performance and prospects. Significant growth in our business, employees, operations and revenues has occurred only since 2005. Our media convergence business model is new in China and we may not be able to achieve results or growth in future periods as we did in past periods. Although we have achieved profitability in recent periods, we incurred a net loss attributable to Phoenix New Media Limited for the fiscal year ended December 31, 2008. Our ability to achieve and maintain profitability depends on, among other factors, the growth of the Internet advertising market and mobile Internet services and applications industry in China, our ability to maintain cooperative relationships with Phoenix TV and mobile operators, our ability to control our costs and expenses and the continued relevance and usage of our wireless value-added services, or WVAS. We may not be able to achieve or sustain profitability on a quarterly or annual basis. Accordingly, due to our limited operating history, our historical growth rates may not be indicative of our future performance.

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***If we fail to retain existing advertisers or attract new advertisers for our advertising services, our business, results of operations and growth prospects could be materially affected.***

In 2010, 2011, and 2012, we generated 38.7%, 49.0% and 54.9% of our total revenues from advertising services. Going forward, we expect our net advertising revenues to contribute an increasing portion of our total revenues. Our ability to generate and maintain substantial advertising revenues will depend on a number of factors, many of which are ultimately beyond our control, including but not limited to:

- the acceptance of online advertising as an effective way for advertisers to market their businesses;
- the maintenance and enhancement of our brand;
- the development of independent and reliable means of measuring online traffic and verifying the effectiveness of our online advertising services;
- the development and retention of a large user base with attractive demographics for advertisers; and
- our ability to have continued success with innovative advertising services.

Our advertisers may choose to reduce or discontinue their business with us if they believe their advertising spending has not generated or would not generate enough sales to end customers or has not improved or would not effectively improve their brand recognition. In addition, certain technologies could potentially be developed and applied to block the display of our online advertisements and other marketing products on our website, which may in turn cause us to lose advertisers and adversely affect our operating results. Moreover, changes in government policies could restrict or curtail our online advertising services. Failure to retain our existing advertisers or attract new advertisers for our advertising services could seriously harm our business, results of operations and growth prospects.

***Any failure to retain large advertising agencies or attract new agencies on reasonable terms could materially and adversely affect our business. If advertising agencies demand higher service fees, our gross margin may be negatively affected.***

Approximately 74.8% and 79.1% and 80.8% of our net advertising revenues in China were derived from advertising agencies in 2010, 2011 and 2012, respectively. We primarily serve our advertisers through advertising agencies and rely on these agencies for sourcing our advertisers and collecting advertising revenue. In consideration for these agencies' services, the agencies earn advertising agency service fees which are deducted from our gross advertising revenues. While advertising agencies in China commonly increase their agency service fees on a sliding scale basis along with increased volume of business, if our agency service fees increase at a materially disproportional rate relative to our gross advertising

revenues, our results of operations may be negatively affected. We do not have long-term or exclusive arrangements with these agencies, and we cannot assure you that we will continue to maintain favorable relationships with them. If we fail to maintain favorable relationships with large advertising agencies or attract additional agencies, we may not be able to retain existing advertisers or attract new advertisers and our business and results of operations could be materially and adversely affected.

Over the years, there has been some consolidation among advertising agencies in China. If the consolidation trend continues and the market is effectively controlled by a small number of large advertising agencies, such advertising agencies may be in a position to demand higher advertising agency service fees based on increased bargaining power, which could reduce our net advertising revenues.

*If we fail to continue to anticipate user preferences and provide high quality content that attracts and retains users, we may not be able to generate sufficient user traffic to remain competitive.*

Our success depends on our ability to generate sufficient user traffic through the provision of attractive content. If we are not able to license popular premium content at commercially reasonable terms, if our desired premium content becomes exclusive to our competitors, or if we do not continue to possess an exclusive license to Phoenix TV's content, the attractiveness of our offerings to users may be severely impaired. We also produce content in-house, and intend to continue to invest resources in producing original content. If we are unable to continue to procure premium and distinctive licensed content or produce in-house content that meets users' tastes and preferences, we may lose users, and our operating results may suffer. In addition, we rely on our team of skilled editors to edit and repackage our sourced content in a timely and professional manner for our users and any deterioration in our editing team's capabilities or losses in personnel may materially and adversely affect our operating results. If our content fails to cater to the needs and preferences of our users, we may suffer from reduced user traffic and our business and results of operations may be materially and adversely affected.

*We may experience decline in demand for our WVAS business and any expected economic benefits from this business may not be realized.*

In 2010, 2011 and 2012, our WVAS revenues accounted for 60.6%, 65.4% and 59.1%, respectively, of our paid service revenues. For more information about our WVAS, see Item 4. Information of the Company B. Business Overview Our Channels and Services Our Mobile Channel WVAS. However, our WVAS business has a short operating history. As a result, there is limited financial data that can be used to evaluate our WVAS business and its potential to generate revenues in the future. In addition, we cannot assure you that we will be successful in developing our WVAS business, which will depend, among other things, on our ability to:

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- respond to market developments, including the development of new channels and technologies, and changes in pricing and distribution models;
- maintain and diversify our distribution channels, including through our own mobile Internet site, the platforms of China Mobile Communications Corporation, or China Mobile, and the other Chinese mobile operators, mobile device manufacturers and mobile application stores;
- develop new high quality WVAS that can achieve significant market acceptance, and improve our existing WVAS in a timely manner to extend their life spans and to maintain their competitiveness in the Chinese mobile market;
- develop and upgrade our technologies; and
- execute our WVAS business and marketing strategies successfully.

Due to the uncertainties of our WVAS business in particular and the WVAS industry in China generally, we cannot guarantee that our WVAS will contribute significantly to our future revenues. Any failure to successfully develop this business could have a material adverse effect on our business, financial condition and results of operations.

***We may not be successful in growing our mobile Internet related business and our revenue growth could be negatively impacted.***

Mobile Internet services and applications, is an emerging market in China. The growth of this market and the level of demand and market acceptance of our services are subject to many uncertainties. The development of this market and our ability to derive revenues from this market depends on a number of factors, some of which are beyond our control, including but not limited to:

- the growth rate of mobile Internet in China;
- changes in consumer demographics and preferences;
- development in mobile device platform technologies and mobile Internet distribution channels; and

- potential competition from more established companies that decide to enter the mobile Internet market.

***If we fail to successfully develop and introduce new products and services to meet the preferences of users, our competitive position and ability to generate revenues could be harmed.***

The preferences of viewers are continuously evolving and we must continue to develop new products and services. If we fail to react to changes in user preferences in a timely manner or fall behind our competitors in providing innovative products and services, we may lose user traffic, which would negatively affect our results of operations. In addition, the planned timing or introduction of new products and services is subject to risks and uncertainties. Actual timing may differ materially from original plans. Unexpected technical, operational, distribution or other problems could delay or prevent the introduction of one or more of our new products or services. Moreover, we cannot be sure that any of our new products and services will achieve widespread market acceptance or generate incremental revenue. At the same time, other new media providers may be more successful in developing more attractive products and services. If our efforts to develop, market and sell new products and services to the market are not successful, our financial position, results of operations and cash flows could be materially adversely affected, the price of our ordinary shares could decline and you could lose part or all of your investment.

***We operate in highly competitive markets and we may not be able to compete successfully against our competitors.***

We face significant competition in the new media industry in China, including competition from major Internet portals, Internet video companies, online video sites of major TV broadcasters, interactive and social network service providers, online and mobile gaming companies, mobile Internet services providers and other companies with strong online video and MIVAS businesses. Some of our competitors have longer operating histories and significantly greater financial resources than we do, which may allow them to attract and retain more users and advertisers. Our competitors may compete with us in a variety of ways, including by obtaining exclusive online distribution rights for popular content, conducting more aggressive brand promotions and other marketing activities and making acquisitions to increase their user bases. If any of our competitors achieves greater market acceptance or are able to offer more attractive online content, interactive services or MIVAS than us, our user traffic and our market share may decrease, which may result in a loss of advertisers and have a material and adverse effect on our business, financial condition and results of operations.

We also face competition from traditional advertising media such as television, newspapers, magazines, billboards and radio. Most large companies in China allocate, and will likely continue to allocate, a significant portion of their advertising budgets to traditional advertising media, particularly television. If online advertising as a new marketing channel does not become more widely accepted in China, we may experience difficulties in competing with traditional advertising media.

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***We have contracted with third-party content providers and we may lose users and revenues if these relationships deteriorate or arrangements are terminated. If third-party content providers increase their content licensing fees, our income from operations may be negatively affected.***

We have relied and will continue to rely mostly on third parties for the content we distribute across our channels. If these parties fail to develop and maintain high-quality and engaging content or raise their licensing fees, or if a large number of our existing relationships are terminated, we could lose users and advertisers and our brand could be materially harmed. License fees for short-form video content showed an increasing trend in 2012. While increases in license fees for third-party video content did not significantly affect our cost of revenues in 2012, if such license fees continue to increase significantly in the future, our income from operations may be negatively affected. In addition, the Chinese government has the ability to restrict or prevent state-owned media from cooperating with us in providing certain content to us, which, if exercised, would result in a significant decrease in the amount of content we are able to source for our website and negatively impact our results of operations.

***We may not be able to continue to receive the same level of support from Phoenix TV in the future. We could lose our exclusive license to Phoenix TV's content, which would have a material adverse effect on our video VAS business, which accounted for 5.0% of our total revenues in 2012, and would also negatively affect our video advertising business. Together, these impacts could have a material adverse effect on our business and results of operation.***

Phoenix TV, our majority shareholder, is a leading global Chinese language TV network broadcasting premium content globally and into China. In November 2009, our PRC subsidiary, Fenghuang On-line, entered into a cooperation agreement with Phoenix TV, or the Phoenix TV Cooperation Agreement, under which Fenghuang On-line and Phoenix TV agreed to certain cooperative arrangements in the areas of content, branding, promotion and technology. Pursuant to the Phoenix TV Cooperation Agreement, in November 2009 each of our affiliated consolidated entities entered into a program content license agreement, or Content License Agreement, with Phoenix Satellite Television Company Limited and a trademark license agreement, or Trademark License Agreement, with Phoenix Satellite Television Trademark Limited. Each of these agreements will expire in March 2016 unless both of the relevant parties agree to extend their respective terms.

We benefit materially from the exclusive license granted to our affiliated consolidated entities by Phoenix Satellite Television Company Limited, a wholly owned subsidiary of Phoenix TV, to use Phoenix TV's copyrighted content on our Internet and mobile channels in China pursuant to the Content License Agreements. This exclusive license helps to distinguish our content offerings from those of other Internet and new media companies in China. Each of the Content License Agreements can be terminated earlier (i) by the non-breaching party in the event of a breach and if the breach is not cured within ten business days after receipt of notice of breach from the non-breaching party, (ii) in the event of bankruptcy or the cessation of business operations of either party, or a change in the shareholder or equity structure of the relevant affiliated consolidated entity, other than in connection with the contractual arrangements, (iii) if either party's performance of its obligations is held unlawful under PRC law; or (iv) if an event occurs that adversely affects the performance by either party of its obligations and upon written notice by the unaffected party. The Content License Agreements will, unless extended further, expire in March 2016, or may be terminated early, and we may not be able to obtain rights to use Phoenix TV's content on our platform on commercially reasonable terms, on an exclusive basis or at all, which would have a material adverse effect on our video VAS, which accounted for 5.0% of our total revenues in 2012, and may also negatively affect our video advertising business. Together, these impacts could have a material and adverse effect on our business, results of operations and financial condition.

In addition, our affiliated consolidated entities are able to use certain of Phoenix TV's logos pursuant to the Trademark License Agreements. We believe that our use of these logos helps to affiliate us with the brand of Phoenix TV, which helps to enhance our own brand. Tianying Jiuzhou and Yifeng Lianhe are obligated to pay annual license fees of US\$7,000 and US\$3,000, respectively, under the Trademark License Agreements, which fees are not subject to adjustment and may be waived at the discretion of Phoenix TV. Each of these agreements may be terminated early (i) by agreement of both parties in writing or (ii) by the non-breaching party in the event of a material breach by the other party of any covenant or a material failure by such party to perform any of its obligation and if the breach or failure, as applicable, is not rectified within ten days of

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receipt of written notice from the non-breaching party. The Trademark License Agreements expire in March 2016 and we cannot assure you that we will be able to continue to use Phoenix TV's logos in order to help maintain our brand affiliation with Phoenix TV. If our brand image deteriorates as a result of a weaker brand affiliation with Phoenix TV, our business and the price of your ADSs could be negatively affected.

We provide our in-house produced content and user-generated content, or UGC, to Phoenix TV on a regular and frequent basis for display on its TV programs and Phoenix TV promotes our brand name and content on its TV network pursuant to the Phoenix TV Cooperation Agreement. As compensation for the rights granted to us under the Phoenix TV Cooperation Agreement, Fenghuang On-line is currently obligated to pay Phoenix TV an annual service fee in the amount of RMB1.6 million for the first year of the agreement, which incrementally increases by 25% for each subsequent year of the agreement. For 2012, the annual service fee payment to Phoenix TV is RMB2.5 million. If Phoenix TV's indirect voting interest in Fenghuang On-line decreases to 50% or below, Phoenix TV has the right to amend the annual service fee under the Phoenix TV Cooperation Agreement, provided that it may not be raised to more than 500% of the original annual service fee. In addition to the annual service fee, Fenghuang On-line must also pay to Phoenix TV 50% of the after-tax revenues Tianying Jiuzhou earns from sublicensing Phoenix TV's video content to third parties, which is not subject to adjustment. In addition, if Phoenix TV's indirect equity interest in our company decreases to 35% or below, Phoenix TV has the right to immediately terminate the Phoenix TV Cooperation Agreement. The Phoenix TV Cooperation Agreement will, unless extended further, expire in March 2016, or may be terminated early, and therefore we cannot guarantee you that we may continue to benefit from promotional or other cooperative arrangements with Phoenix TV in the future. We cannot assure you that we will continue to receive the same level of support from Phoenix TV.

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***Any negative development in Phoenix TV's market position, harm to Phoenix TV's brand or operations, or regulatory actions or legal proceedings affecting Phoenix TV's intellectual properties on which our business relies could materially and adversely affect our business and results of operations.***

Our business benefits significantly from our association with Phoenix TV's brand. Many of our users and advertisers are attracted to the Phoenix ( ) brand, with which our brand, ifeng.com ( ) shares a similar Chinese name. Any negative development in Phoenix TV's market position or brand recognition may materially and adversely affect our marketing efforts and the popularity of our business. Any negative development in Phoenix TV's operations or attractiveness to users or advertisers may materially and adversely affect our business and results of operations. Moreover, as our benefits materially from the content licensed to us by Phoenix TV, any regulatory actions or legal proceedings against Phoenix TV related to such content could have a material adverse impact on our results of operation.

***If we are unable to keep pace with rapid technological changes in the Internet and mobile Internet industries, our business may suffer.***

The Internet and mobile Internet industries have been experiencing rapid technological changes. For example, with the advances of search engines and social networking sites, Internet users may choose to access information through search engines or social networking sites instead of web portals or similar websites. With the advances in Internet interactivity, the interests and preferences of Internet users may increasingly shift to UGC, such as blogs, micro-blogs, and video podcasts. As broadband becomes more accessible, Internet users may increasingly demand content in pictorial, audio-rich and video-rich format. With the development of the mobile Internet in China, mobile users may shift from the current predominant text messaging services and other WVAS to newer services, such as mobile commerce, mobile video streaming, mobile Internet browsing and mobile digital reading services. Our future success will depend on our ability to anticipate, adapt and support new technologies and industry standards. If we fail to anticipate and adapt to these and other technological changes, our market share and our profitability could suffer.

***Our lack of an Internet audio-visual program transmission license may expose us to administrative sanctions, including the banning of our video VAS, non-paid video services and video advertising services, which would materially and adversely affect our business and results of operation.***

The PRC government regulates the Internet industry extensively, including foreign ownership of, and the licensing requirements pertaining to, companies in the Internet industry. A number of regulatory agencies, including the Ministry of Culture, or the MOC, the Ministry of Industry and Information Technology, or MIIT, the General Administration of Press and Publication, Radio, Film and Television, or GAPPRFT, the State Council Information Office, or the SCIO, and other governmental authorities, jointly regulate all major aspects of the Internet industry. Operators are required to obtain various government approvals and licenses prior to providing the relevant Internet information services.

Pursuant to the *Administrative Provisions on Internet Audio-visual Program Service*, or the Audio-visual Program Provisions, which was issued by the State Administration of Radio, Film and Television (the predecessor of GAPPRFT), or SARFT and MIIT on December 20, 2007 and came into effect on January 31, 2008, online transmission of audio and video programs requires an Internet audio-visual program transmission license and online audio-visual service providers must be either wholly state-owned or state-controlled. In a press conference jointly held by SARFT and MIIT to answer questions with respect to the Audio-visual Program Provisions in February 2008, SARFT and MIIT clarified that online audio-visual service providers that already had been operating lawfully prior to the issuance of the Audio-visual Program Provisions may re-register and continue to operate without becoming state-owned or controlled, provided that such providers have not engaged in any unlawful activities. See Item 4. Information on the Company B. Business Overview Regulatory Matters Regulation of Online Transmission of Audio-Visual

Programs.

We started offering Internet audio-visual program services through Tianying Jiuzhou in China prior to the issuance of the Audio-visual Program Provisions. Tianying Jiuzhou submitted an application to GAPPRT to apply for the Internet audio-visual program transmission license when the relevant regulation came into effect. However, as of the date of this annual report, GAPPRT has not issued Tianying Jiuzhou an Internet audio-visual program transmission license. Although we have been communicating with the relevant government authorities, such government authorities have not informed us as to when they will make a decision on whether to issue such license to Tianying Jiuzhou. To date, we have not received any notice of warning or been subject to penalties or other disciplinary action from the relevant governmental authorities regarding our dissemination of audio-visual programs through our website or mobile channel without such license. We cannot assure you that Tianying Jiuzhou will be able to obtain the Internet audio-visual program transmission license. Due to Tianying Jiuzhou's lack of an Internet audio-visual program transmission license, the applicable local counterpart of GAPPRT may issue warnings, order us to rectify our violating activity and impose on us a fine of no more than RMB30,000. In case of severe contravention as determined by GAPPRT or its applicable local counterpart in its discretion, the applicable local counterpart of GAPPRT may ban the violating operations, seize our equipment in connection with such operations and impose a penalty of one to two times the amount of the total investment in such operations. The banning of our video VAS, non-paid video program services and video advertising services would materially and adversely affect our business and results of operations.

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***Our lack of an Internet news license may expose us to administrative sanctions, including an order to cease our Internet information services that provide political news or to cease the Internet access services provided by third parties to us. In 2012, approximately 56.8% of our total revenues were derived from Internet information services and services that relied on Internet access services from third parties.***

We are required to obtain an Internet news license from SCIO for the dissemination of news through our website. See Item 4. Information on the Company B. Business Overview Regulatory Matters Regulation of Internet News Dissemination. Tianying Jiuzhou submitted an application to the SCIO to apply for the Internet news license when the relevant regulation came into effect. However, as of the date of this annual report, the SCIO has not issued an Internet news license to Tianying Jiuzhou. As a result of Tianying Jiuzhou's lack of an Internet news license, the SCIO or applicable information office at the provincial level may order us to cease the violating operations and impose a fine on us of not more than RMB30,000. In the case of severe contravention as determined by SCIO or its applicable local counterpart in its sole discretion, the telecommunications administrative authorities may, based on written confirmation opinions of SCIO or the applicable information office at the provincial level, and in accordance with the relevant regulations on Internet information services, cease our Internet information services that provide current political news or cease the Internet access services that third parties provide to us. In 2012, approximately 56.8% of our total revenues were derived from Internet information services and services that relied on Internet access services from third parties.

***If we fail to maintain effective internal control over financial reporting, our ability to accurately and timely report our financial results in accordance with U.S. GAAP may be materially and adversely affected. In addition, investor confidence in us and the market price of our ADSs may decline significantly.***

We are subject to reporting obligations under U.S. securities laws. Among other things, the United States Securities and Exchange Commission, or the SEC, as required by Section 404 of the Sarbanes-Oxley Act of 2002, or Section 404, adopted rules requiring every public company, including us, to include a report from management on the effectiveness of its internal control over financial reporting in its annual report on Form 20-F starting in the annual report for its second fiscal year as a public company. In addition, beginning at the same time, an independent registered public accounting firm must attest to and report on the effectiveness of such public company's internal control over financial reporting. We are subject to these requirements for the first time with respect to this annual report on Form 20-F for the fiscal year ended December 31, 2012.

During the course of the audit of our consolidated financial statements for the years ended December 31, 2011, we and our independent registered public accounting firm identified one material weakness and one significant deficiency in our internal control over financial reporting, as defined in AU 325, Communicating Internal Control Related Matters Identified in an Audit, of the AICPA Professional Standards. The material weakness related to the lack of sufficient accounting personnel with appropriate understanding of U.S. GAAP accounting issues and the SEC reporting requirements. The significant deficiency related to the lack of written accounting manual and closing procedures to facilitate preparation of financial statements for financial reporting purposes.

We have undertaken certain remedial steps to address the material weakness and the significant deficiency. As of December 31, 2012, our management has concluded that our internal control over financial reporting is effective after the remediation. See Item 15. Controls and Procedures Management's Annual Report on Internal Control over Financial Reporting. Our independent registered public accounting firm has issued an attestation report, which has concluded that our internal control over financial reporting is effective as of December 31, 2012.

However, if we fail to maintain effective internal control over financial reporting in the future, our management and our independent registered public accounting firm may not be able to conclude that we have effective internal control over financial reporting at a reasonable assurance level. This could in turn result in the loss of investor confidence in the reliability of our financial statements and negatively impact the trading

price of our ADSs. Furthermore, we have incurred and anticipate that we will continue to incur considerable costs, management time and other resources in an effort to maintain compliance with Section 404 and other requirements of the Sarbanes-Oxley Act.

***We depend on China Mobile, a related party, and other PRC mobile telecommunications operators for the majority of our paid service revenues, and any termination or deterioration of our relationship with these telecommunications operators may result in severe disruptions to our business operations and the loss of the majority of our revenues.***

We derive substantially all of our MIVAS revenues, as well as our revenues from our mobile subscription and pay-per-view video services from the provision of content through the networks of the PRC telecommunications operators. In particular, we rely primarily on the networks of China Mobile, a shareholder of Phoenix TV since August 2006 with an equity interest of 19.7% as of March 31, 2013 to deliver our services. In 2010, 2011 and 2012, we derived approximately 86.8%, 91.3% and 85.7%, respectively, of our paid service revenues from China Mobile. Within these revenues, we generated a significant portion through fixed fee arrangements with China Mobile for our digital reading services. The remainder of our MIVAS revenues and revenues from our mobile subscription and pay-per-view video services are mostly derived from China United Telecommunications Corporation, or China Unicom, and China Telecommunications Corporation, or China Telecom.

We have entered into a series of agreements with China Mobile and other Chinese mobile operators and their provincial subsidiaries to provide MIVAS and mobile subscription and pay-per-view video services through their networks. These mobile operators could terminate cooperation with us or refuse to perform their obligations to pay for the MIVAS and mobile subscription and pay-per-view video services we provide under the terms of our agreements with them for a variety of reasons, including failure to meet specified performance standards, the provision of poor services that gives rise to a high level of customer complaints or the delivery of content that violates the relevant operator's policies and applicable law. In addition, our agreements with the mobile operators are generally for terms of one year or less. There is no assurance that we will be able to renew these agreements on commercially reasonable terms, or at all. If any of the Chinese mobile operators ceases to cooperate with us, it is unlikely that such operator's customers will continue to use our mobile services. In particular, if China Mobile ceases to cooperate with us, it is unlikely that we will be able to build up sufficient new customers through the networks of other Chinese mobile operators to develop a customer base comparable to that which we have developed through China Mobile. Due to our reliance on China Mobile and other Chinese mobile operators to deliver our MIVAS and mobile subscription and pay-per-view video services to our customers, any termination or deterioration of our relationship with China Mobile or other Chinese mobile operators may result in severe disruptions to our business operations and the loss of the majority of our revenues, and could have a material adverse effect on our financial condition and results of operations.

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In addition, our negotiating leverage with China Mobile and other Chinese mobile operators is limited because China Mobile and other Chinese mobile operators operate the mobile networks through which a large number of service and content providers deliver their products to mobile phone users in China. We cannot assure you that such operators will not adopt business strategies that could have a material adverse effect on our business. In addition, our ability to develop certain new MIVAS or mobile video businesses going forward may be restricted by the business policies of China Mobile or other Chinese mobile operations. Due to our limited negotiating leverage with these mobile operators, we cannot exert any influence on their business decisions. Therefore, we cannot assure you that China Mobile or other Chinese mobile operators will not implement business strategies or policies that could have a material adverse effect on our results of operation and financial condition, or limit our ability to grow our MIVAS or mobile video businesses in the future.

***Our quarterly revenues and operating results may fluctuate, which makes our results of operations difficult to predict and may cause our quarterly results of operations to fall short of expectations.***

Our quarterly revenues and operating results have fluctuated in the past and may continue to fluctuate depending upon a number of factors, many of which are out of our control. For these reasons, comparing our operating results on a period-to-period basis may not be meaningful, and you should not rely on our past results as an indication of our future performance. Our quarterly and annual revenues and costs and expenses as a percentage of our revenues may be significantly different from our historical or projected rates. Our operating results in future quarters may fall below expectations. Any of these events could cause the price of our ADSs to fall. Other factors that may affect our financial results include, among others:

- global economic conditions;
  
- our ability to maintain and increase user traffic;
  
- our ability to attract and retain advertisers;
  
- changes in the policies of mobile operators;
  
- changes in government policies or regulations, or their enforcement; and
  
- geopolitical events or natural disasters such as war, threat of war, earthquake or epidemics.

Our operating results tend to be seasonal. For instance, we may generate less revenue from brand advertising sales and paid service revenues during national holidays in China, in particular during the Chinese New Year holidays in the first quarter of each year. We may have higher net

advertising revenues during the fourth quarter of each year primarily due to greater advertising spending by our advertisers near the end of the year when they spend the remaining portions of their annual budgets. In addition, advertising spending in China has historically been cyclical, reflecting overall economic conditions as well as the budgeting and buying patterns of our customers.

***Our efforts to develop additional distribution channels for our MIVAS and mobile subscription and pay-per-view video services may not succeed or may be restricted or halted by telecommunications operators.***

Cooperation with mobile service providers, which we refer to as our channel partners, and mobile device manufacturers has provided us with important distribution channels for our MIVAS and mobile video services businesses. We sell a certain amount of our premium content and services through our channel partners' platforms. In addition, we pre-install into the menus of certain mobile devices certain of our MIVAS icons and short codes for products offered on the multimedia messaging service, or MMS, short message service, or SMS, and interactive voice response, or IVR, platforms. A consumer who buys a new mobile device pre-installed with our MIVAS or mobile video icons and codes can access and subscribe to our services quickly and easily. Channel partners and mobile device manufacturers have, through our cooperation with them, become important distribution channels. However, we cannot assure you that we will continue to maintain a growing or stable number of suitable channel partners in the future. In addition, in recent years, China Mobile and other telecommunications operators have entered into cooperation agreements with mobile handset manufacturers similar to our agreements with mobile handset manufacturers. We cannot guarantee that mobile device manufacturers will continue their direct cooperation with us or maintain their current revenue sharing arrangements with us.

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In addition, we cannot guarantee that MIIT or telecommunications operators will not restrict or halt our cooperation with handset manufacturers. In 2007, MIIT issued a notice barring the production of mobile handsets with embedded icons and codes that could not be changed or deleted by consumers, and this caused mobile service providers to alter their arrangements with mobile handset manufacturers to comply with the notice. We cannot assure you that MIIT or telecommunications operators will not take other actions to limit or halt our use of mobile handsets as a distribution channel. Any such other actions could have a negative impact on our business and results of operations.

***Our dependence on the billing systems and records of mobile operators may require us to estimate portions of our reported revenues and cost of revenues for most of our MIVAS and mobile subscription and pay-per-view video services, which may require subsequent adjustments to our financial statements.***

We depend largely on the billing systems and records of the telecommunications operators to record the volume of our MIVAS and mobile subscription and pay-per-view video services provided, bill our customers, collect payments and remit to us our portion of the revenues. We record revenues based on monthly statements from the mobile operators confirming the value of our services that the mobile operators billed to customers during the month. Due to our past experience with the timing of receipt of the monthly statements from the mobile operators, we expect that we may need to rely on our own internal estimates for the portion of our reported revenues and cost of revenues for which we will not have received monthly statements. In such instances, our internal estimates would be based on our own internal data of expected revenues and related fees from services provided. As a result of such reliance on internal estimates, we may overstate or understate our revenues and cost of revenues for the relevant reporting period, and may be required to make adjustments in our financial reports when we actually receive the mobile operators' monthly statements for such period. We endeavor to reduce the discrepancy between our revenue estimates and the revenues calculated by the mobile operators and their subsidiaries; however, we cannot assure you that these efforts will be successful. In addition, we generally do not have the ability to independently verify or challenge the accuracy of the billing systems of the mobile operators. We cannot assure you that any negotiations between us and mobile operators to reconcile billing discrepancies would be resolved in our favor or that our financial condition and results of operations would not be materially and adversely affected as a result. Historically, there has been no significant difference between our revenue estimates and the mobile operators' billing statements.

***Significant changes in the policies or guidelines of China Mobile or other Chinese mobile operators with respect to services provided by us may result in lower revenues or additional costs for us and materially and adversely affect our business operations, financial condition and results of operations.***

China Mobile or other Chinese mobile operators may from time to time issue policies or guidelines, requesting or stating their preferences for certain actions to be taken by all mobile Internet service providers using their networks. Due to our reliance on China Mobile and other Chinese mobile operators, a significant change in their policies or guidelines may cause our revenues to decrease or operating costs to increase. We cannot assure you that our financial condition and results of operations will not be materially adversely affected by policy or guideline changes by China Mobile or other Chinese mobile operators.

For example, on November 30, 2009, China Mobile implemented a series of measures on PRC-based wireless application protocol, or WAP, sites targeted at eliminating offensive or unauthorized content, including pornographic content. As a result, China Mobile and other Chinese mobile operators suspended billing for their customers for all WAP and G+ mobile gaming platform services, including those services that do not contain offensive or unauthorized content, on behalf of third-party service providers of such services. China Mobile and mobile other operators have not yet indicated how long these new measures will remain in effect or whether they will expand the current measures. In the fourth quarter of 2009, mobile operators also imposed restrictions on pre-installations of mobile applications on handsets and tightened the requirement of additional billing confirmations. Largely due to such measures, our revenues from WVAS decreased in 2009 as compared to 2008.

In January 2010, China Mobile began implementing an additional series of measures targeted at further improving the user experience for mobile device embedded services, in addition to the introduction of a new short message service, or SMS, code management system. Under these measures, WVAS that are embedded in mobile devices will be required to introduce additional notices and confirmations to end-consumers during the purchase of such services. In addition, services related to SMS short codes will be required to be more tailored to the specific service offerings or service partners. Previously, a single SMS code could be used for multiple service offerings or partners.

We cannot assure you that China Mobile or other Chinese mobile operators will not introduce additional requirements with respect to the procedures for ordering monthly subscriptions or single-transaction downloads of our MIVAS (including WVAS) and our mobile subscription and pay-per-view video services, notifications to customers, the billing of customers or other consumer-protection measures or adopt other policies that may require significant changes in the way we promote and sell our MIVAS and mobile subscription and pay-per-view video services and develop our MIVAS and mobile video businesses, any of which could have a material adverse effect on our financial condition and results of operations.

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***Our strategy of acquiring complementary assets, technologies and businesses may fail and may result in equity or earnings dilution.***

As part of our business strategy, we intend to identify and acquire assets, technologies and businesses that are complementary to our business. Acquired businesses or assets may not yield the results we expect. In addition, acquisitions could result in the use of substantial amounts of cash, potentially dilutive issuances of equity securities, significant amortization expenses related to intangible assets and exposure to potential unknown liabilities of the acquired business. Moreover, the cost of identifying and consummating acquisitions, and integrating the acquired businesses into ours, may be significant, and the integration of acquired business may be disruptive to our business operations. In addition, we may have to obtain approval from the relevant PRC governmental authorities for the acquisitions and comply with any applicable PRC rules and regulations, which may be costly. In the event our acquisitions are not successful, our financial condition and results of operation may be materially and adversely affected.

***Failure to obtain GAPPRFT's approval for introducing and broadcasting foreign television programs could have a material adverse effect on our ability to conduct our business.***

A substantial amount of the video content on our website is closely linked to or is the online version of the TV content of Phoenix TV. PRC law requires approval from GAPPRFT for introducing and broadcasting foreign television programs into China. In September 2004, SARFT promulgated certain regulations the *Administrative Regulations on the Introduction and Broadcasting of Foreign Television Programs*, pursuant to which only organizations designated by GAPPRFT are qualified to apply to GAPPRFT or its authorized entities for the introduction or broadcasting of foreign television programs. In addition, on July 6, 2004, SARFT issued the Measures for the *Administration of Publication of Audio-Visual Programs through the Internet or Other Information Networks*, or the 2004 A/V Measures, which explicitly prohibit Internet service providers from broadcasting any foreign television program over an information network and state that any violation may result in warnings, monetary penalties or, in severe cases, criminal liabilities. On November 19, 2009, SARFT issued a notice which extended this prohibition to broadcasting over mobile phones. In December 2007 and March 2009, however, SARFT issued two notices which provide that certain foreign audio-visual programs may be published through the Internet provided that certain regulatory requirements have been met and certain permits have been obtained, thereby implying that the absolute restriction against broadcasting foreign television programs on the Internet as set forth in the 2004 A/V Measures has been lifted. See Item 4. Information on the Company B. Business Overview Regulatory Matters Regulation of Foreign Television Programs and Satellite Channels. As of the date of this annual report, we have not obtained an approval from GAPPRFT for introducing and broadcasting foreign TV programs produced by Phoenix TV or other foreign TV stations in China. We have made oral inquiries with SARFT, and were orally informed that such operations do not violate the regulations on the introduction and distribution of foreign TV programs. Therefore, there is considerable uncertainty as to whether we are permitted to transmit foreign television programs through the online video services that we offer, including video VAS. If GAPPRFT or its local branch requires us to obtain its approval for our introduction and online broadcasting of overseas TV programs, we may not be able to obtain such approval in a timely manner or at all. In such case, the PRC government would have the power to, among other things, levy fines against us, confiscate our income, order us to cease certain content service, or require us to temporarily or permanently discontinue the affected portion of our business.

***Failure to obtain certain permits for our health and Chinese medicine verticals would subject us to penalties.***

Entities in China are not allowed to provide drug-related or medical care information services online before obtaining an Internet Medicine Information Service Qualification Certificate and a Consent Letter for Internet Medical Care Information from the relevant local government agencies. See Item 4. Information on the Company B. Business Overview Regulatory Matters Regulation of Certain Internet Content. Certain of our verticals, such as our health and traditional Chinese medicine verticals contain drug-related information and certain online health diagnoses and treatment advices provided by our users. We do not currently have such certificate or consent letter, but have engaged an agency to assist us in applying for such certificate and consent letter. We are in the process of undertaking the necessary steps for preparing this application. We

cannot assure you that we may be able to obtain the certificate and consent letter. Without them, we may be subject to administrative warnings, termination of any Internet drug-related services and online health diagnoses and treatment services on our website, and other penalties that are not clearly provided for in the relevant regulations.

***If we fail to obtain or maintain all applicable permits and approvals, or fail to comply with PRC regulations, relating to online games, our ability to conduct our online game business and certain other businesses could be affected and we could be subject to penalties and other administrative sanctions.***

Pursuant to PRC regulations regulating online games, online games (including mobile games) are categorized as a type of online cultural product and the provision of online games is deemed an Internet publication activity. Therefore, in order to operate an online game business, an operator should obtain an Online Culture Operating Permit from the MOC (with a business scope covering operation of online games) and an Internet Publication License from GAPPRT in order to directly make its online games publicly available in China. Furthermore, pursuant to the *Provisional Measures on the Administration of Online Games* promulgated by the MOC on June 3, 2010, an online mobile games operator should make a filing with the MOC in respect of each domestic game within 30 days of commencing operations. In addition, each online game must be screened by GAPPRT by way of an approval process before it is first published and made publicly available. See Item 4. Information on the Company B. Business Overview Regulatory Matters Regulation of Online Cultural Activities, Online Games and Internet Music.

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Both Tianying Jiuzhou and Yifeng Lianhe are currently operating online game businesses. As of the date of this annual report, Tianying Jiuzhou and Yifeng Lianhe have obtained Online Culture Operating Permits from the MOC with respect to its operation of online games, and Tianying Jiuzhou has obtained an Internet Publication License from GAPPRFT with respect to books and periodicals published on the Internet, including the mobile Internet, and online and mobile games. Yifeng Lianhe is in the process of applying for an Internet Publication License. In addition, we have not obtained advanced approval for any of our online games from GAPPRFT or filed our online games with the MOC. We cannot assure you that (i) Yifeng Lianhe can obtain an Internet Publication License; or (ii) Tianying Jiuzhou and Yifeng Lianhe can obtain all the required approvals and complete the relevant filing procedures with the relevant government authorities for each game they operate in a timely manner or at all. If the relevant authority challenges the commercial operation of our games and determines that we are in violation of the relevant laws and regulations regarding online and mobile games, it would have the power to, among other things, levy fines against us, confiscate our income and require us to discontinue our online game business. In addition, if we were deemed to be in violation of the relevant laws and regulations regarding online and mobile games, GAPPRFT would have the ability to withdraw the Internet Publication License that it granted to Tianying Jiuzhou on April 15, 2011, which may affect, directly or indirectly, our ability to conduct our online digital reading services and game services.

In addition, the MOC and the Ministry of Commerce, or MOFCOM, jointly issued in 2009 the *Notice on Strengthening the Administration of Online Game Virtual Currency*, or the Virtual Currency Notice, which requires online game operators to report the total amount of their issued virtual currency on a quarterly basis, and game operators are prohibited from issuing disproportionate amounts of virtual currency in order to generate revenues. The Virtual Currency Notice also reiterates that virtual currency can only be provided to users in exchange for an RMB payment and can only be used to pay for virtual goods and services of the issuers. We provide extra free virtual currencies to game users as they buy virtual currencies, which is not in compliance with the Virtual Currency Notice. Therefore, we may be ordered to remedy such noncompliance within the timeframe specified by the MOC or MOFCOM. If we failed to remedy any noncompliance within the specified timeframe, the MOC and MOFCOM would have the power to, among other things, levy fines against us, confiscate our income, order us to cease certain services.

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***Our consolidated affiliated entities and their respective shareholders do not own all the trademarks used in their value-added telecommunications services, which may subject them to revocation of their licenses or other penalties or sanctions.***

Pursuant to the *Notice on Strengthening the Administration of Foreign Investment in Value-added Telecommunications Services* issued on July 13, 2006 by MIIT, or the MIIT 2006 Notice, domestic telecommunications service providers are prohibited from leasing, transferring or selling telecommunications business operating licenses to any foreign investors in any form, or providing any resources, sites or facilities to any foreign investors for their operation of telecommunications businesses in China. According to the MIIT 2006 Notice, the holder of a value-added telecommunications business operating license, or ICP License, or its shareholders must directly own the domain names and trademarks used in their value-added telecommunications business operations. After the promulgation of the MIIT 2006 Notice in July 2006, the MIIT issued a subsequent notice in October 2006, or the MIIT October Notice, urging value-added telecommunication service operators to conduct self-examination regarding any noncompliance with the MIIT 2006 Notice prior to November 1, 2006. Pursuant to the MIIT October Notice, ICP License-holders who were not in compliance with the MIIT 2006 Notice were allowed to submit a self-correction report to the local provincial-level branch of MIIT by November 20, 2006.

Our PRC consolidated affiliated entities, Tianying Jiuzhou and Yifeng Lianhe, are currently engaged in the provision of value-added telecommunications services and each of them has obtained ICP Licenses from MIIT or its local counterpart in Beijing. In addition, Tianying Jiuzhou owns our material domain names, including ifeng.com, and, as of March 31, 2013, owned five registered trademarks that were transferred to it from Phoenix Satellite Television Trademark Limited. However, Yifeng Lianhe does not currently have any registered trademarks and both of our affiliated consolidated entities continue to use certain of Phoenix TV's logos that are licensed from Phoenix Satellite Television Trademark Limited, a wholly owned subsidiary of Phoenix TV, in their value-added telecommunications services. Therefore, we are not currently in compliance with the MIIT 2006 Notice.

We have designed propriety logos for use in the respective businesses of Tianying Jiuzhou and Yifeng Lianhe. As of March 31, 2013, Tianying Jiuzhou owned 19 PRC registered trademarks. In addition, Tianying Jiuzhou had submitted 97 registration applications relating to 10 logo designs to the PRC Trademark Office, and Yifeng Lianhe had submitted 20 registration applications relating to three logo designs to the PRC Trademark Office. In addition, we will continue to examine the possibility of transferring to our affiliated consolidated entities all or part of the ownership of additional licensed logos currently used by them in a manner that would meet the requirements of PRC trademark regulations in due course in the future. The Trademark Office will first undertake a preliminary examination for compliance with the PRC Trademark Law, and if it finds our proposed trademarks to be in compliance, will make a public announcement allowing any person to file a claim to the trademark within a period of three months. If there is no such opposition, the Trademark Office will register the trademark, issue a registration certificate to us and make a public announcement. We expect the registration process to take approximately two years to complete. We intend to continue to use the logos we license from Phoenix TV in the interim period until our proprietary logos have been registered, and may continue to use these logos after our proprietary logos have been registered.

Although, neither of our consolidated affiliated entities has been required by the MIIT or its local counterpart to obtain and hold the ownership of the relevant trademarks related to our value-added telecommunications services to date, the provincial-level counterpart of MIIT may enforce the MIIT 2006 Notice on our affiliated consolidated entities. In such case, the provincial-level counterpart of MIIT could order our affiliated consolidated entities to own the registered trademarks used in their value-added telecommunications business within a specified period of time. We do not have knowledge about the period of time that MIIT would provide us to complete the necessary remediation measures. We are also not aware that since issuing the MIIT October Notice, MIIT has promulgated any additional notices or guidelines with respect to timelines for self-examination or remediation of noncompliance with the MIIT 2006 Notice. Moreover, the MIIT October Notice does not specify how much time the MIIT allows for ICP License-holders to remedy their noncompliance issues. If we failed to remedy any noncompliance within the time frame specified by the provincial counterpart of MIIT, the relevant governmental authority would have the discretion to revoke our affiliated consolidated entities' licenses for value-added telecommunications or subject them to other penalties or sanctions, which would have a material and adverse effect on our business, financial condition, results of operations and prospects. Our value-added telecommunications services currently account for substantially all of our total revenues.

*We may be adversely affected by the complexity, uncertainties and changes in PRC regulation of Internet businesses and companies, including limitations on our ability to own key assets, such as our website.*

The Chinese government heavily regulates the Internet industry, including foreign investment in the Chinese Internet industry, content on the Internet and license and permit requirements for service providers in the Internet industry. Since some of the laws, regulations and legal requirements with respect to the Internet are relatively new and evolving, their interpretation and enforcement involve significant uncertainties. In addition, the Chinese legal system is based on written statutes, such that prior court decisions can only be cited for reference and have little precedential value. As a result, in many cases it is difficult to determine what actions or omissions may result in liabilities. Issues, risks and uncertainties relating to China's government regulation of the Chinese Internet sector include the following:

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- We operate our website in China through contractual arrangements due to restrictions on foreign investment in businesses providing value-added telecommunication services, including substantially all of our paid services and advertising services.
  
- Uncertainties relating to the regulation of the Internet business in China, including evolving licensing practices, give rise to the risk that some of our permits, licenses or operations may be subject to challenge, which may be disruptive to our business, subject us to sanctions or require us to increase capital, compromise the enforceability of relevant contractual arrangements, or have other adverse effects on us. The numerous and often vague restrictions on acceptable content in China subject us to potential civil and criminal liability, temporary blockage of our website or complete shut-down of our website. For example, the State Secrecy Bureau, which is directly responsible for the protection of state secrets of all Chinese government and Chinese Communist Party organizations, is authorized to block any website it deems to be leaking state secrets or failing to meet the relevant regulations relating to the protection of state secrets in the distribution of online information. In addition, the newly amended *Law on Preservation of State Secrets* which became effective on October 1, 2010 provides that whenever an Internet service provider detects any leakage of state secrets in the distribution of online information, it should stop the distribution of such information and report to the authorities of state security and public security. As per request of the authorities of state security, public security or state secrecy, the Internet service provider should delete any contents on its website that may lead to disclosure of state secrets. Failure to do so on a timely and adequate basis may subject the service provider to liability and certain penalties imposed by the State Security Bureau, Ministry of Public Security and/or MIIT or their respective local counterparts.
  
- On September 28, 2009, the General Administration of Press and Publication (the predecessor of GAPPRT), or GAPP and the National Office of Combating Pornography and Illegal Publications jointly published a circular expressly prohibiting foreign investors from participating in Internet game operating business via wholly owned, equity joint venture or cooperative joint venture investments in China, and from controlling and participating in such businesses directly or indirectly through contractual or technical support arrangements. It is not clear yet as to whether other PRC government authorities, such as MOFCOM, or MIIT, will support GAPPRT in enforcing such prohibition.
  
- On December 16, 2011, the Beijing Municipal News Office, together with the Beijing Municipal Public Security Bureau, the Beijing Municipal Communications Administration and the Beijing Municipal Internet Information Office, jointly issued the *Several Measures on the Administration of the Development of Micro-blog in Beijing*, or the Micro-blog Measures, which took effect on the same date. The Micro-blog Measures stipulate that all micro-blogs operators in Beijing must require their users to register with their real names and that all micro-blog operators must complete procedures required by the Internet information content regulatory authority of Beijing for the operation of micro-blog services within three months after the effective date of the Micro-blog Measures. In addition, the *Decision on Strengthening the Protection of Network Information* promulgated by the Standing Committee of National People's Congress of PRC on December 28 2012, or the Information Protection Decision, also states that Internet service providers shall require users to provide their real identity information when entering into agreements with the users or confirming the provision of services. In order to comply with the Micro-blog Measures and the Information Protection Decision, we have added clauses into our agreements with the users of our micro-blog service and us requesting our micro-blog users to register using their real names. However, as the Micro-blog Measures and the Information Protection Decision are newly promulgated, we currently do not know how our micro-blog business will be affected by the application of the Micro-blog Measures and the Information Protection Decision. If the Beijing municipal government or other PRC government authorities were to take actions to tighten the supervision of real name registration of micro-blog users in accordance with the Micro-blog Measures and the Information Protection Decision, we might not be able to retain the active users of our micro-blog or attract new users of our micro-blog, which could have adverse impact on the stickiness of our micro-blog and thus adversely affect our business operations.

Due to the increasing popularity and use of the Internet and other online services, it is possible that a number of laws and regulations may be adopted with respect to the Internet or other online services covering issues such as user privacy, pricing, content, copyrights, distribution, antitrust and characteristics and quality of products and services. The adoption of additional laws or regulations may impede the growth of the Internet or other online services, which could, in turn, decrease the demand for our products and services and increase our cost of doing business. Moreover, the applicability to the Internet and other online services of existing laws in various jurisdictions governing issues such as

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property ownership, sales and other taxes, libel and personal privacy is uncertain and may take years to resolve. Any new legislation or regulation, the application of laws and regulations from jurisdictions whose laws do not currently apply to our business, or the application of existing laws and regulations to the Internet and other online services could significantly disrupt our operations or subject us to penalties.

The interpretation and application of existing PRC laws, regulations and policies, the stated positions of relevant PRC government authorities and possible new laws, regulations or policies have created substantial uncertainties regarding the legality of existing and future foreign investments in, and the businesses and activities of, Internet businesses in China, including our business.

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***Failure to fully comply with PRC regulations regarding value-added telecommunications services may subject us to fines and other legal or administrative sanctions.***

Our affiliated consolidated entities provide value-added telecommunication services in China, from which we derive substantially all of our total revenues. Pursuant to the relevant PRC regulations regarding value-added telecommunications services, commercial operators of value-added telecommunications services must first obtain an ICP License from MIIT or its provincial-level counterparts. Operators providing ICP services across provinces are required to apply for a trans-regional ICP License directly from MIIT and make a filing with the relevant provincial counterparts of MIIT before they commence their operation in the relevant provinces. If there is any change or update to the registered information recorded on the ICP License or filed with the local provincial level counterparts of MIIT, the ICP License holder shall apply to MIIT or its relevant provincial-level counterpart to amend the relevant registered information or records. In addition, an approved ICP service operator must conduct its business in accordance with the specifications recorded on its ICP License. See Item 4. Information on the Company B. Business Overview Regulatory Matters Regulation of Telecommunications and Internet Information Services. In addition, with respect to services relating to SMS short codes, operators are required to obtain a SMS services access code license, or the SMS License, from MIIT or its provincial-level counterparts. If they provide services relating to SMS short codes across provinces, operators must apply for a trans-regional SMS License from MIIT and conduct filings with each of the provincial-level counterparts of MIIT where they conduct businesses. See Item 4. Information on the Company B. Business Overview Regulatory Matters Regulation of Telecommunications Networks Code Number Resources.

Each of our affiliated consolidated entities has obtained a trans-regional ICP License and a SMS License from MIIT and completed filing procedures in connection with the ICP License with the relevant MIIT provincial level counterparts prior to the commencement of its operations in the relevant provinces. Currently, Tianying Jiuzhou and Yifeng Lianhe are handling filing procedures in connection with SMS Licenses in certain provinces and updating certain information with regard to ICP Licenses and SMS Licenses filed with certain local MIIT counterparts. Failure to complete the SMS License filings in certain provinces or to update the filing information of the ICP Licenses in a timely manner, may cause us to be ordered to rectify our noncompliance, given a warning and made subject to a fine of between RMB5,000 and RMB30,000.

***The Chinese government may prevent us from advertising or distributing content, including UGC, that it believes is inappropriate and we may be subject to penalties for such content or we may have to interrupt or stop the operation of our website.***

China has enacted regulations governing Internet access and the distribution of news and other information. In the past, the Chinese government has stopped the distribution of information over the Internet or through mobile Internet devices that it believes violates Chinese law, including content that it believes is obscene or defamatory, incites violence, endangers the national security, or contravenes the national interest. In addition, certain news items, such as news relating to national security, may not be published without permission from the Chinese government. If the Chinese government were to take any action to limit or prohibit the distribution of information through our websites or through our services, or to limit or regulate any current or future content or services available to users on our network, our business could be significantly harmed.

In addition to professionally produced content, content from Phoenix TV and our in-house produced content, we allow our users to upload text and images (UGC) to our websites. We have a content screening team of approximately 50 editors who are responsible for monitoring and preventing the public release of inappropriate or illegal content, including UGC, on our websites or through our services. Although we have adopted internal procedures to monitor the content displayed on our websites, due to the significant amount of UGC uploaded by our users, we may not be able to identify all the UGC that may violate relevant laws and regulations. Failure to identify and prevent inappropriate or illegal content from being displayed on our websites may subject us to liability.

Moreover, because the definition and interpretation of prohibited content is in many cases vague and subjective, it is not always possible to determine or predict what content might be prohibited under existing restrictions or restrictions that might be imposed in the future. For example, in 2005, SARFT issued a notice prohibiting commercials for WVAS related to fortune-telling from airing on radio and television stations effective in February 2005. GAPPRFT or other Chinese government authorities may prohibit the marketing of other video VAS or MIVAS via a channel we depend on to generate revenues, which could have a material adverse effect on our business, results of operations or financial position.

*Content provided on our website may expose us to libel or other legal claims which may result in costly legal damages.*

Claims have been threatened and filed against us for libel, defamation, invasion of privacy and other theories based on the nature and content of the materials posted on our website. While we screen our content for such potential liability, there is no assurance that our screening process will identify all potential liability, especially liability arising from UGC and content we license from third parties. In the past, some of the claims brought against us have resulted in liability. Although none of such liability was material, we cannot assure you we will not be subject to future claims that could be costly, encourage similar lawsuits, distract our management team and harm our reputation and possibly our business.

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***Advertisements on our website may subject us to penalties and other administrative actions.***

Under PRC advertising laws and regulations, we are obligated to monitor the advertising content shown on our website to ensure that such content is true, accurate and in full compliance with applicable laws and regulations. In addition, where a special government review is required for specific types of advertisements prior to website posting, such as advertisements relating to pharmaceuticals, medical instruments, agrochemicals and veterinary pharmaceuticals, we are obligated to confirm that such review has been performed and approval has been obtained from relevant governmental authorities, which include the local branch of the SAIC, the local branch of the State Food and Drug Administration, the local branch of the Ministry of Health and the local branch of the State Administration of Traditional Chinese Medicine. To fulfill these monitoring functions, we include clauses in all of our advertising contracts requiring that all advertising content provided by advertisers must comply with relevant laws and regulations. Pursuant to the contracts between us and advertising agencies, advertising agencies are liable for all damages to us caused by their breach of such representations. Before a sale is confirmed and the advertisement is publicly posted on our website, our account execution personnel, who comprise a separate back-office team, are required to review all advertising materials to ensure there is no racial, violent, pornographic or any other improper content, and will request the advertiser to provide proof of governmental approval if the advertisement is subject to special government review. Violation of these laws and regulations may subject us to penalties, including fines, confiscation of our advertising income, orders to cease dissemination of the advertisements and orders to publish an announcement correcting the misleading information. In circumstances involving serious violations, such as posting an advertisement for fake pharmaceutical products, PRC governmental authorities may force us to terminate our advertising operation or revoke our licenses.

A majority of the advertisements shown on our website are provided to us by third-party advertising agencies on behalf of advertisers. We cannot assure you that all of the content contained in such advertisements is true and accurate as required by the advertising laws and regulations. For example, the *Advertisement Law* provides that an advertisement operator who knows or should have known the posted advertisement is false or fraudulent will be subject to joint and several liability. Under the *Detailed Implementation Rules on the Administrative Regulations for Advertisement*, a website must not post any advertisements that are untrue or lacking the requisite governmental approval if such type of advertisements are subject to special governmental review. However, for the determination of the truth and accuracy of the advertisements, there are no implementing rules or official interpretations, and such a determination is at the sole discretion of the relevant local branch of the SAIC, which results in uncertainty in the application of these laws and regulations. If we are found to be in violation of applicable PRC advertising laws and regulations in the future, we may be subject to penalties and our reputation may be harmed, which may have a material and adverse effect on our business, financial condition, results of operations and prospects.

***Ineffective implementation of the separation of our advertising sales and regulatory compliance functions may result in insufficient supervision over the content of advertisements shown on our website and may subject us to penalties or administrative actions.***

We keep our advertising sales function separate from our team that is in charge of government compliance in order to prevent potential conflicts between our advertising business and our compliance with relevant PRC advertising laws and regulations. Before a sale is confirmed and the relevant advertisements are publicly posted on our website, our account execution personnel, who comprise a separate back-office team that does not interface directly with advertisers, are required to review all advertising materials to ensure that the relevant advertisements do not contain any racial, violent, pornographic or any other improper content. These personnel will request an advertiser to provide proof of governmental approval if its advertisement is subject to special governmental review. Such procedures are designed to enhance our regulatory compliance efforts. However, in the event that the separation of advertising sales and regulatory compliance functions is not effectively implemented, the content of our advertisements may not be in full compliance with applicable laws and regulations. If we are found to be in violation of applicable laws and regulations in the future, we may be subject to penalties and our reputation may be harmed. This may have a material and adverse effect on our business, financial condition and results of operations.

*The continuing and collaborative efforts of our senior management, key employees and other employees are crucial to our success, and our business may be harmed if we were to lose their services.*

Our success depends on the continuous efforts and services of Mr. Shuang Liu, our chief executive officer, Mr. Ya Li, our chief operating officer, and Ms. Qianli Liu, our chief financial officer. If, however, one or more of our executives or other key personnel are unable or unwilling to continue to provide services to us, we may not be able to find suitable replacements easily or at all. Competition for management and key personnel is intense and the pool of qualified candidates is limited. We may not be able to retain the services of our executives or key personnel, or attract and retain experienced executives or key personnel in the future. We do not maintain key-man life insurance for any of our key personnel. If any of our executive officers or key employees joins a competitor or forms a competing company, we may lose advertisers, know-how and key professionals and staff members. Each of our executive officers and key employees has entered into an employment agreement and a non-compete agreement with us. However, if any dispute arises between us and our executives or key employees, these agreements may not be enforceable in China, where these executives and key employees reside, in light of uncertainties with China's legal system. See Risks Relating to Doing Business in China Uncertainties with respect to the PRC legal system could limit the protections available to you and us.

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Our future success will also depend on our ability to attract and retain highly skilled technical, managerial, editorial, finance, marketing, sales and customer service employees. Qualified individuals are in high demand, and we may not be able to successfully attract, assimilate or retain the personnel we need to succeed.

***We have granted, and may continue to grant, stock options, restricted shares and restricted share units under our share incentive plans or adopt new share incentive plans in the future, which may result in increased share-based compensation expenses.***

We adopted a share option plan in June 2008 and a restricted share and restricted share unit plan in March 2011. As of March 31, 2013, 4,527,280 restricted shares of our company, 3,197,142 contingently issuable shares, options to purchase 29,373,577 Class A ordinary shares and restricted share units obligating our company to issue and deliver 1,408,938 Class A ordinary shares were outstanding. See Item 6. Directors, Senior Management and Employees B. Compensation of Directors, Supervisors and Executive Directors Share Incentive Plans . For the years ended December 31, 2010, 2011 and 2012, we recorded RMB16.6 million, RMB66.1 million and RMB6.8 million (US\$1.1 million), respectively, in share-based compensation expenses. The significant increase in our share-based compensation expenses in 2011 was primarily due to our grant of restricted shares and restricted share units to certain of our employees in March 2011. We believe the granting of share-based awards is of significant importance to our ability to attract and retain key personnel and employees, and we will continue to grant stock options to employees in the future. We intend to grant additional stock options to our employees going forward, which we expect will further increase our share-based compensation expenses. If we continue to grant share options in the future, our share-based compensation expenses will increase accordingly.

***We have been and expect we will continue to be exposed to intellectual property infringement and other claims, including claims based on content posted on our website, which could be time-consuming and costly to defend and may result in substantial damage awards and/or court orders that may prevent us from continuing to provide certain of our existing services.***

Our success depends, in large part, on our ability to operate our business without infringing third-party rights, including third-party intellectual property rights. Companies in the Internet, technology and media industries own, and are seeking to obtain, a large number of patents, copyrights, trademarks and trade secrets, and they are frequently involved in litigation based on allegations of infringement or other violations of intellectual property rights or other related legal rights. There may be patents issued or pending that are held by others that cover significant aspects of our technologies, products, business methods or services. Although our license agreements with licensors of premium licensed content require that the licensors have the legal right to license such content to us and give us the right to promptly remove any content that we have been notified contains infringing material, we cannot ensure that each licensor has such authorization and we may not receive notification of infringement. If any purported licensor does not actually have sufficient authorization relating to the premium licensed content or right to license a work of authorship provided to us, we may be subject to claims of copyright infringement from third parties, and we cannot ensure we can be fully indemnified by the relevant licensor for all losses we may incur from such claims.

Third parties may take action and file claims against us if they believe that certain content on our site violates their copyrights or other related legal rights. We have been subject to such claims in the PRC. From January 1, 2012 to March 31, 2013, we have been subject to 21 cases in the PRC, 13 of which have been concluded. The damages awards or settlement we paid among the lost and settled cases range from approximately RMB10,000 to RMB100,000 per case.

In addition, our platform is open to Internet users for uploading text and images. As a result, content posted by our users may expose us to allegations by third parties of infringement of intellectual property rights, invasion of privacy, defamation and other violations of third-party

rights. Pursuant to our user agreement, users agree not to use our services in a way that is illegal, obscene or may otherwise violate generally accepted codes of ethics. However, given the volume of content uploaded it is not possible, and we do not attempt to identify and remove all potentially infringing content uploaded by our users.

We cannot assure you that we have not become subject to copyright laws in other jurisdictions, such as the United States, by virtue of our listing in the United States, the ability of users to access our videos in the United States and other jurisdictions, the ownership of our ADSs by investors, the extraterritorial application of foreign law by foreign courts or otherwise. Although we have not previously been subject to legal actions for copyright infringement in jurisdictions other than China, it is possible that we may be subject to such claims in the future. Any such claims in China, U.S., or elsewhere, regardless of their merit, could be time-consuming and costly to defend, and may result in litigation and divert management's attention and resources. Furthermore, an adverse determination in any such litigation or proceedings to which we may become a party in China, U.S. or elsewhere could cause us to pay substantial damages. For example, statutory damage awards in the U.S. can range from US\$750 to US\$30,000 per infringement, and if the infringement is found to be intentional, can be as high as US\$150,000 per infringement. Additionally, the risk of an adverse determination in such litigation or an actual adverse determination may result in harm to our reputation or in adverse publicity. The risk of an adverse result or the actual adverse result in litigation may also require us to seek licenses from third parties, pay ongoing royalties or become subject to injunctions requiring us to remove content or take other steps to prevent infringement, each of which could prevent us from pursuing some or all of our business and result in our users and advertisers or potential users and advertising customers deferring or limiting their use of our services, which could materially adversely affect our financial condition and results of operations.

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***We may not be able to adequately protect our intellectual property, which could cause us to be less competitive.***

We rely on a combination of copyright, trademark and trade secret laws and restrictions on disclosure to protect our intellectual property rights. Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy or otherwise obtain and use our copyrighted content and other intellectual property. Monitoring such unauthorized use is difficult and costly, and we cannot be certain that the steps we have taken will prevent misappropriation. From time to time, we may have to resort to litigation to enforce our intellectual property rights, which could result in substantial costs and diversion of our resources. The PRC has historically afforded less protection to a company's intellectual property than the United States and the Cayman Islands, and therefore companies such as ours operating in the PRC face an increased risk of intellectual property piracy.

***The discontinuation of any of the preferential tax treatments available to us in China and the imposition of value-added tax to replace business tax could materially and adversely affect our results of operations and financial condition.***

Under PRC tax laws and regulations, our PRC subsidiary, Fenghuang On-line enjoyed, or is qualified to enjoy, certain preferential income tax benefits. The *Enterprise Income Tax Law*, effective on January 1, 2008, or the EIT Law, and its implementation rules significantly curtail tax incentives granted to foreign-invested enterprises. The EIT Law, however (i) reduces the statutory rate of enterprise income tax from 33% to 25%, (ii) permits companies established before March 16, 2007 to continue to enjoy their existing tax incentives, subject to certain transitional rules, and (iii) introduces new tax incentives, subject to various qualification criteria. For example, the EIT Law permits certain high and new technology enterprises strongly supported by the state to enjoy a reduced enterprise tax rate of 15%. According to the relevant administrative measures, to qualify as high and new technology enterprises strongly supported by the state, Fenghuang On-line must meet certain financial and non-financial criteria and complete verification procedures with the administrative authorities. Continued qualification as a high and new technology enterprise is subject to a three-year review by the relevant government authorities in China, and in practice certain local tax authorities also require annual evaluation of the qualification. In the event the preferential tax treatment for Fenghuang On-line is discontinued or is not verified by the local tax authorities, and the affected entity fails to obtain preferential income tax treatment based on other qualifications such as Advanced Technology Service Enterprise, it will become subject to the standard PRC enterprise income tax rate of 25%. We cannot assure you that the tax authorities will not, in the future, discontinue any of our preferential tax treatments, potentially with retroactive effect. On April 21, 2010, the State Administration of Taxation issued Circular 157 providing additional guidance on the interaction of certain preferential tax rates under the transitional rules of the EIT Law. Prior to Circular 157, we understood that if a high and new technology enterprise, or HNTE, entity was in a tax holiday period, where it was entitled to a 50% reduction in the tax rate, and it was also entitled to the 15% HNTE preferential tax rate, then it would be entitled to pay tax at the rate of 7.5%. Circular 157 appears to have the effect that such an entity is entitled to pay taxes at either the lower of 15% or 50% of the applicable PRC tax rate (in terms of a foreign investment enterprise during transition period such as Fenghuang On-line, 22% for 2010, 24% for 2011 and 25% starting from 2012). However, to date, Beijing local-level tax bureau has not implemented Circular 157 and is holding the view that the relevant provisions may not apply to NHTEs in Science & Technology Park of Haidian District. Therefore, Fenghuang On-line was entitled to a 50% reduction of its applicable tax rate to 7.5% from 2009 to 2011. Fenghuang On-line's income tax rate increased from 7.5% to 15% in 2012 due to the end of its tax holiday period. See Item 10. Additional Information E. Taxation.

On November 16, 2011, the Ministry of Finance and the State Administration of Taxation announced the *Business Tax to Value Added Tax Transformation Pilot Program*, or the VAT Pilot Program. Productive service industries, such as the transportation industry and certain modern services industries, were the first in the pilot regions to implement the VAT Pilot Program. The implementation of the VAT Pilot Program began on January 1, 2012 in Shanghai and on September 1, 2012 in Beijing, and was then expanded to seven other provinces and municipalities by the end of 2012. As a result of the VAT Pilot Program, the advertising revenues and other modern service revenues, such as web-based game service revenues and technical service fees, earned by our entities located in Beijing are subject to value-added tax at a rate of 6%. The industries and regions to which the VAT Pilot Program applies may expand or change in the future, and the impact that any such change may have on our results of operations is uncertain. The imposition of value-added tax to replace business tax may increase our tax expenses, which could

materially and adversely affect our results of operations and financial condition.

***Our operations could be disrupted by unexpected network interruptions caused by system failures, natural disasters or unauthorized tampering with our systems, and there is no assurance that our back-up system is sufficient to guarantee uninterrupted operation.***

The continual accessibility of website and the performance and reliability of our network infrastructure are critical to our reputation and our ability to attract and retain users, advertisers and merchants. Any system failure or performance inadequacy that causes interruptions in the availability of our services or increases the response time of our services could reduce our appeal to advertisers and consumers. Factors that could significantly disrupt our operations include: system failures and outages caused by fire, floods, earthquakes, power loss, telecommunications failures and similar events; software errors; computer viruses, break-ins and similar disruptions from unauthorized tampering with our computer systems; and security breaches related to the storage and transmission of proprietary information, such as credit card numbers or other personal information. Although we perform system back-up on a regular basis, there is no assurance that our back-up system is sufficient to guarantee uninterrupted operation. Future disruptions or any of the foregoing factors could damage our reputation, require us to expend significant capital and other resources and expose us to a risk of loss or litigation and possible liability. We do not carry business interruption insurance to compensate for losses that may occur as a result of any of these events. Accordingly, our revenues and results of operations may be materially and adversely affected if any of the above disruptions should occur.

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

The insurance industry in China is still young and the business insurance products offered in China are limited. We do not have any business liability or disruption insurance coverage for our operations. Any business disruption, litigation or natural disaster may cause us to incur substantial costs and divert our resources.

***A prolonged slowdown in the global or PRC economies may materially and adversely affect our results of operations, financial condition, prospects and future expansion plans.***

The global financial markets experienced significant disruptions in 2008 and the United States, Europe and other economies went into recession. The recovery from the lows of 2008 and 2009 was uneven and is facing new challenges, including the escalation of the European sovereign debt crisis since 2011. While leading European nations have implemented a series of financial support measures, it is still unclear whether the European debt crisis can be contained and what effects it may have. Moreover, average crude oil prices in 2012 remained at historically high levels for a second year in a row, due in part to disruptions in oil production in South Sudan, Yemen, Syria and the North Sea.

Economic conditions in the PRC are sensitive to macroeconomic conditions. In part due to lower export demand resulting from slow economic recoveries in the United States and Europe and a weak economic environment in Japan, China's GDP growth decelerated during the first three quarters in 2012. China's year-over-year GDP growth rate for the first quarter of 2013, 7.7%, was significantly lower than the Reuters consensus forecast of 8.0% and slowed from 7.9% for the fourth quarter of 2012, due primarily to sluggish industrial output and fixed asset investment. In addition, there is uncertainty regarding the scale and the effects of a real estate bubble alleged by some to have reached a critical stage in the PRC. Since demand for our paid and advertising services are sensitive to macro-economic conditions globally and in the PRC, our business prospects may be affected by the macroeconomic environment. Any prolonged slowdown in the global or PRC economy may have a material adverse effect on our business, results of operations and financial condition, and continued turbulence in the international markets may materially and adversely affect our ability to access the capital markets to meet liquidity needs.

***PRC regulations establish complex procedures for certain acquisitions of PRC companies by foreign investors, which could make it more difficult for us to pursue growth through acquisitions in China.***

On August 8, 2006, six PRC regulatory authorities, including the CSRC, jointly promulgated the *Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors*, or the 2006 M&A Rules, which were later amended on June 22, 2009. The 2006 M&A Rules establish procedures and requirements that could make some acquisitions of PRC companies by foreign investors more time-consuming and complex, including requirements in some instances that MOFCOM be notified in advance of any change-of-control transaction in which a foreign investor takes control of a PRC domestic enterprise. In addition, national security review rules issued by the PRC governmental authorities in 2011 require acquisitions by foreign investors of domestic companies engaged in military related or certain other industries that are crucial to national security to be subject to prior security review. According to the MOFCOM Security Review Rules, a security review is required for mergers and acquisitions of PRC domestic enterprises by foreign investors (i) having national defense and security concerns, and (ii) where the foreign investors may acquire the de facto control of the PRC domestic enterprises having national security concerns such as key farm products, key energy and resources, and key infrastructure, transportation, technology and major equipment manufacturing industries. Circular No.6, however, does not define the term of key or major, nor has it exhausted all the industries that may be deemed as sensitive industries subject to the security review.

We may expand our business in part by acquiring complementary businesses. Complying with the requirements of the M&A Rules, security review rules, if applicable, and other PRC regulations to complete such transactions could be time-consuming, and any required approval processes, including obtaining approval from MOFCOM, may delay or inhibit our ability to complete such transactions, which could affect our ability to expand our business or maintain our market share.

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***We may become a passive foreign investment company, or PFIC, which could result in adverse United States federal income tax consequences to United States Holders (as defined below).***

Based upon the past and projected composition of our income and valuation of our assets, including goodwill, we do not expect to be a passive foreign investment company, or PFIC, for the current taxable year, and we do not expect to become one in the future, although there can be no assurance in this regard. The determination of whether or not we are a PFIC is made on an annual basis and will depend on the composition of our income and assets from time to time. Specifically, we will be classified as a PFIC for United States federal income tax purposes for any taxable year in which: (i) at least 75% of our gross income in a taxable year is passive income, or (ii) at least 50% of the value (determined based on a quarterly average) of our assets is attributable to assets that produce or are held for the production of passive income. The calculation of the value of our assets will be based, in part, on the quarterly market value of our ADSs, which is subject to change. See Item 10. Additional Information E. Taxation Material United States Federal Income Tax Consequences Passive Foreign Investment Company.

In addition, there are substantial uncertainties as to the treatment of our corporate structure and ownership of our affiliated consolidated entities for United States federal income tax purposes. If it is determined that we do not own the stock of our affiliated consolidated entities for United States federal income tax purposes (for instance, because the relevant PRC authorities do not respect these arrangements), we would likely be treated as a PFIC.

If we are a PFIC for any taxable year during which you hold our ADSs or ordinary shares, such characterization could result in adverse United States federal income tax consequences to you if you are a United States Holder, as defined under Taxation Material United States Federal Income Tax Consequences. For example, if we are or become a PFIC, you may become subject to increased tax liabilities under United States federal income tax laws and regulations, and will become subject to burdensome reporting requirements. You can sometimes avoid the adverse tax consequences of the PFIC tax rules with respect to the stock you own in a PFIC by electing to treat such PFIC as a qualified electing fund under Section 1295 of the Code. However, this election is not available to you because we do not intend to comply with the requirements necessary to permit you to make this election. See Item 10. Additional Information E. Taxation Material United States Federal Income Tax Consequences Passive Foreign Investment Company.

If we were a PFIC for any year during which a United States Holder held our ADSs or ordinary shares, we generally would continue to be treated as a PFIC for all succeeding years during which such United States Holder held our ADSs or ordinary shares. See Item 10. Additional Information E. Taxation Material United States Federal Income Tax Consequences Passive Foreign Investment Company. We cannot assure you that we will not be a PFIC for the current taxable year or any future taxable year. Moreover, the determination of our PFIC status is based on an annual determination that cannot be made until the close of a taxable year. This investigation includes ascertaining the fair market value of all of our assets on a quarterly basis and the character of each item of income we earn, which involves extensive factual investigation and cannot be completed until the close of a taxable year, and therefore, our U.S. counsel expresses no opinion with respect to our PFIC status.

**Risks Relating to Our Corporate Structure**

***Phoenix TV (BVI) owns our Class B ordinary shares with 1.3 votes per share, allowing it and Phoenix TV to exercise significant influence over matters subject to shareholder approval, and their interests may not be aligned with the interests of our other shareholders.***

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Phoenix TV (BVI), a wholly owned direct subsidiary of Phoenix TV, owned 51.5% of our total issued and outstanding shares as of March 31, 2013. Moreover, all shares held by Phoenix TV (BVI) are Class B ordinary shares with 1.3 votes per share. As a result, Phoenix TV (BVI) held 58.0% of the total voting power of our ordinary shares as of March 31, 2013. Accordingly, Phoenix TV (BVI), and Phoenix TV through Phoenix TV (BVI), have substantial control over the outcome of corporate actions requiring shareholder approval, including the election of directors, any merger, consolidation or sale of all or substantially all of our assets or any other significant corporate transaction, and their interests may not align with the interests of our other shareholders. Phoenix TV (BVI) may take actions that are not in the best interest of us or our other shareholders and may also delay or prevent a change of control or otherwise discourage a potential acquirer from attempting to obtain control of us, even if such a change of control would benefit our other shareholders. This significant concentration of share ownership may adversely affect the trading price of our ADSs due to investors' perception that conflicts of interest may exist or arise.

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***We may have conflicts of interest with Phoenix TV and, because of Phoenix TV's controlling beneficial ownership interest in our company, may not be able to resolve such conflicts on terms favorable for us.***

Conflicts of interest may arise between Phoenix TV and us in a number of areas relating to our past and ongoing relationships. Potential conflicts of interest that we have identified include the following:

- *Our board members or executive officers may have conflicts of interest.* Certain of our board members and executive officers own shares, restricted share units and/or options in Phoenix TV. Phoenix TV may continue to grant incentive share compensation to certain of our board members and executive officers from time to time. These relationships could create, or appear to create, conflicts of interest when these persons are faced with decisions with potentially different implications for Phoenix TV and us.
- *Sale of shares in our company.* Phoenix TV (BVI) may decide to sell all or a portion of our shares that it beneficially owns to a third party, including to one of our competitors, thereby giving that third party substantial influence over our business and our affairs. Such a sale could be contrary to the interests of certain of our shareholders, including our employees or public shareholders.
- *Competition.* We do not have a non-compete agreement with Phoenix TV and therefore neither we nor Phoenix TV is prohibited from entering into competition with each other in respect of our respective current businesses or new businesses.
- *Allocation of business opportunities.* Business opportunities may arise that both we and Phoenix TV find attractive, and which would complement our respective businesses. We and Phoenix TV do not have an agreement governing the allocation of new business opportunities presented to us and Phoenix TV in the future, and therefore, it is not certain which company will have the priority to pursue such business opportunities when such opportunities arise.

Although our company is a separate, stand-alone entity, Phoenix TV (BVI), a wholly owned direct subsidiary of Phoenix TV, owns Class B ordinary shares, each of which will be entitled to 1.3 votes on all matter subject to shareholders' vote, and we operate as a part of the Phoenix TV Group. Phoenix TV may from time to time make strategic decisions that it believes are in the best interests of its business as a whole, including our company. These decisions may be different from the decisions that we would have made on our own. Phoenix TV's decisions with respect to us or our business may be resolved in ways that favor Phoenix TV and therefore Phoenix TV's own shareholders, which may not coincide with the interests of our other shareholders. We may not be able to resolve any potential conflicts, and even if we do so, the resolution may be less favorable to us than if we were dealing with non-controlling shareholder. Even if both parties seek to transact business on terms intended to approximate those that could have been achieved among unaffiliated parties, this may not succeed in practice.

***If the PRC government finds that the agreements that establish the structure for operating our businesses in China do not comply with PRC governmental restrictions on foreign investment in Internet businesses, or if these regulations or the interpretation of existing regulations change in the future, we would be subject to severe penalties or be forced to relinquish our interests in those operations.***

Current PRC laws and regulations place certain restrictions on foreign ownership of companies that engage in Internet and mobile Internet businesses. Specifically, pursuant to the *Regulations for Administration of Foreign-Invested Telecommunications Enterprises* issued by the State Council on December 11, 2001 and amended on September 10, 2008, foreign ownership in an Internet content provider or other value-added telecommunication service providers may not exceed 50%. We conduct our operations in China principally through contractual arrangements among our wholly-owned PRC subsidiary, Fenghuang On-line and two consolidated affiliated entities in the PRC, namely, Yifeng Lianhe and Tianying Jiuzhou, and their respective shareholders. Yifeng Lianhe holds the licenses and permits necessary to conduct our mobile business in China, while Tianying Jiuzhou holds the licenses and permits necessary to conduct our Internet portal, video, mobile Internet business, and Internet advertising and related businesses in China. Our contractual arrangements with Yifeng Lianhe and Tianying Jiuzhou and their respective shareholders enable us to exercise effective control over these entities and hence treat them as our consolidated affiliated entities and consolidate their results. For a detailed discussion of these contractual arrangements, see Item 4. Information on the Company C. Organizational Structure Our Corporate Structure.

We cannot assure you, however, that we will be able to enforce these contracts. Although we believe we are in compliance with current PRC regulations, we cannot assure you that the PRC government would agree that these contractual arrangements comply with PRC licensing, registration or other regulatory requirements, with existing policies or with requirements or policies that may be adopted in the future. PRC laws and regulations governing the validity of these contractual arrangements are uncertain and the relevant government authorities have broad discretion in interpreting these laws and regulations. If the PRC government determines that we do not comply with applicable laws and regulations, it could revoke our business and operating licenses, require us to discontinue or restrict our operations, restrict our right to collect revenues, block our website, require us to restructure our operations, impose additional conditions or requirements with which we may not be able to comply, or take other regulatory or enforcement actions against us that could be harmful to our business. The imposition of any of these penalties would result in a material and adverse effect on our ability to conduct our business.

In August 2011, MOFCOM promulgated the *Rules of Ministry of Commerce on Implementation of Security Review System of Mergers and Acquisitions of Domestic Enterprises by Foreign Investors*, or the MOFCOM Security Review Rules, to implement the *Notice of the General Office of the State Council on Establishing the Security Review System for Mergers and Acquisitions of Domestic Enterprises by Foreign Investors* promulgated on February 3, 2011, or Circular No. 6. The MOFCOM Security Review Rules came into effect on September 1, 2011 and replaced the *Interim Provisions of MOFCOM on Matters Relating to the Implementation of the Security Review System for Mergers and Acquisitions of Domestic Enterprises by Foreign Investors* promulgated by MOFCOM in March 2011. According to these circulars and rules, a security review is required for mergers and acquisitions by foreign investors having national defense and security concerns and mergers and acquisitions by which foreign investors may acquire the de facto control of domestic enterprises having national security concerns. In addition, when deciding whether a specific merger or acquisition of a domestic enterprise by foreign investors is subject to the security review, MOFCOM will look into the substance and actual impact of the transaction. The MOFCOM Security Review Rules further prohibit foreign investors from bypassing the security review requirement by structuring transactions through proxies, trusts, indirect investments, leases, loans, control through contractual arrangements or offshore transactions. There is no explicit provision or official interpretation stating that our online dating business falls into the scope subject to the security review, and there is no requirement for foreign investors in those mergers and acquisitions transactions already completed prior to the promulgation of Circular No. 6 to submit such transactions to MOFCOM for security review. As we have already obtained the de facto control over our variable interest entities prior to the effectiveness of these circulars and rules and our current business would not have concerns on national defense and security or national security, we do not believe we are required to submit our existing contractual arrangement to MOFCOM for security review. However, as there is a lack of clear statutory interpretation on the implementation of these circulars and rules, there is no assurance that MOFCOM will have the same view as we do when applying.

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***We rely on contractual arrangements with our affiliated consolidated entities in China, and their shareholders, for our business operations, which may not be as effective in providing operational control or enabling us to derive economic benefits as through ownership of controlling equity interest.***

We rely on and expect to continue to rely on contractual arrangements with our affiliated consolidated entities in China and their respective shareholders to operate our Internet and mobile Internet businesses. These contractual arrangements may not be as effective in providing us with control over the affiliated consolidated entities as ownership of controlling equity interests would be in providing us with control over, or enabling us to derive economic benefits from the operations of, the affiliated consolidated entities. If we had direct ownership of the affiliated consolidated entities, we would be able to exercise our rights as a shareholder to (i) effect changes in the board of directors of those entities, which in turn could effect changes, subject to any applicable fiduciary obligations, at the management level, and (ii) derive economic benefits from the operations of the affiliated consolidated entities by causing them to declare and pay dividends. However, under the current contractual arrangements, as a legal matter, if any of the affiliated consolidated entities or any of their shareholders fails to perform its, his or her respective obligations under these contractual arrangements, we may have to incur substantial costs and resources to enforce such arrangements, and rely on legal remedies available under PRC laws, including seeking specific performance or injunctive relief, and claiming damages, which we cannot assure you will be effective. For example, if shareholders of an affiliated consolidated entity were to refuse to transfer their equity interests in such affiliated consolidated entity to us or our designated persons when we exercise the purchase option pursuant to these contractual arrangements, we may have to take a legal action to compel them to fulfill their contractual obligations.

If (i) the applicable PRC authorities invalidate these contractual arrangements for violation of PRC laws, rules and regulations, (ii) any affiliated consolidated entity or its shareholders terminate the contractual arrangements or (iii) any affiliated consolidated entity or its shareholders fail to perform their obligations under these contractual arrangements, our business operations in China would be adversely and materially affected, and the value of your ADSs would substantially decrease. Further, if we fail to renew these contractual arrangements upon their expiration, we would not be able to continue our business operations unless the then current PRC law allows us to directly operate the applicable businesses in China.

In addition, if any affiliate consolidated entity or 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 the affiliated consolidated entities undergoes a voluntary or involuntary liquidation proceeding, its 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, our ability to generate revenue and the market price of your ADSs.

All of these contractual arrangements are governed by PRC law and provide for the resolution of disputes through arbitration in the PRC. The legal environment in the PRC is not as developed as in some other jurisdictions, such as the United States. As a result, uncertainties in the PRC legal system could limit our ability to enforce these contractual arrangements. In the event we are unable to enforce these contractual arrangements, we may not be able to exert effective control over our operating entities, and our ability to conduct our business may be negatively affected.

***The shareholders of our affiliated consolidated entities may have potential conflicts of interest with us.***

Current PRC laws and regulations place certain restrictions on foreign ownership of companies that engage in Internet and mobile Internet businesses. The shareholders of our affiliated consolidated entities are individuals who are PRC citizens. Since we are over 80% owned by foreign investors, none of the shareholders of our affiliated consolidated entities are significant shareholders of our company. In addition, one of

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the shareholders, Ms. Yinxia Liu, does not own any shares or rights to purchase any shares of our company. Therefore, the interests of these individuals as shareholders of the affiliated consolidated entities and the interests of our company may conflict. We cannot assure you that when conflicts of interest arise, any or all of these individuals will act in the best interests of our company or that any conflict of interest will be resolved in our favor. In addition, these individuals may breach or cause the affiliated consolidated entities that they beneficially own to breach or refuse to renew the existing contractual arrangements, which will have an adverse effect on our ability to effectively control our affiliated consolidated entities and receive economic benefits from them. Currently, we do not have existing arrangements to address potential conflicts of interest between these shareholders and our company. We rely on these shareholders to abide by the laws of the Cayman Islands and China. If we cannot resolve any conflicts of interest or disputes between us and the shareholders of the affiliated consolidated entities, we would have to rely on legal proceedings, the outcome of which is uncertain and which could be disruptive to our business.

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***The contractual arrangements with the affiliated consolidated entities may be subject to scrutiny by the PRC tax authorities and may result in a finding that we owe additional taxes or are ineligible for tax exemption, or both, which could substantially increase our taxes owed and thereby reduce our net income.***

Under applicable PRC laws, rules and regulations, arrangements and transactions between related parties may be subject to audits or challenges by the PRC tax authorities. If any of the transactions we have entered into between our wholly-owned subsidiary in China and any of the affiliated consolidated entities and their respective shareholders are determined by the PRC tax authorities not to be on an arm's length basis, or are found to result in an impermissible reduction in taxes under applicable PRC laws, rules and regulations, the PRC tax authorities may adjust the profits and losses of such affiliated consolidated entity and assess more taxes on it. In addition, the PRC tax authorities may impose late payment fees and other penalties to such affiliated consolidated entity for under-paid taxes. Our net income may be adversely and materially affected if the tax liabilities of any of the affiliated consolidated entities increase or if it is found to be subject to late payment fees or other penalties.

***We may rely on dividends and other distributions on equity paid by our wholly-owned operating subsidiary to fund any cash and financing requirements we may have, and any limitation on the ability of our operating subsidiary to pay dividends to us could have a material adverse effect on our ability to conduct our business.***

We are a holding company, and we may rely on dividends and other distributions on equity paid by Fenghuang On-line, our PRC subsidiary, for our cash requirements, including the funds necessary to service any debt we may incur. If Fenghuang On-line incurs debt on its own behalf in the future, the instruments governing the debt may restrict its ability to pay dividends or make other distributions to us. In addition, the PRC tax authorities may require us to adjust our taxable income under the contractual arrangements Fenghuang On-line currently has in place with the affiliated consolidated entities in a manner that would materially and adversely affect the ability of Fenghuang On-line to pay dividends and other distributions to us. Further, relevant PRC laws, rules and regulations permit payments of dividends by Fenghuang On-line only out of its retained earnings, if any, determined in accordance with accounting standards and regulations of China. Under PRC laws, rules and regulations, Fenghuang On-line is also required to set aside a portion of its net income each year to reserve funds and staff incentive and welfare funds. Fenghuang On-line must set aside at least 10% of after-tax income each year to reserve funds prior to payment of dividends until the cumulative fund reaches 50% of the registered capital. As for staff incentive and welfare funds, the contribution percentage is to be decided by Fenghuang On-line on its own discretion. As a result of these PRC laws, rules and regulations, Fenghuang On-line is restricted from transferring a portion of its net assets to us whether in the form of dividends. As of December 31, 2012, Fenghuang On-line's restricted reserves totaled RMB26.9 million. These restricted reserves are not distributable as cash dividends. Any limitation on the ability of our operating subsidiary to pay dividends to us could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our businesses, pay dividends or otherwise fund and conduct our business.

***Strengthened scrutiny over acquisition and disposition transactions by the PRC tax authorities may have a negative impact on us or your disposition of our shares or ADS.***

Our operations and transactions are subject to review by the PRC tax authorities pursuant to relevant PRC laws and regulations. However, these laws, regulations and legal requirements change frequently, and their interpretation and enforcement involve uncertainties. For example, on April 30, 2009, the Ministry of Finance and the State Administration of Taxation jointly issued the *Notice on Issues Concerning Process of Enterprise Income Tax in Enterprise Restructuring Business*, or Circular 59. On December 10, 2009, the *State Administration of Taxation issued the Notice on Strengthening the Management on Enterprise Income Tax for Equity Transfers of Non-resident Enterprises*, or Circular 698. Both Circular 59 and Circular 698 became effective retroactively on January 1, 2008. Pursuant to the two circulars, in the event that we or Phoenix Satellite Television Information Limited dispose of any equity interests in Fenghuang On-line, whether directly or indirectly, we or Phoenix Satellite Television Information Limited may be subject to income tax on capital gains generated from disposition of such equity interests. The

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PRC tax authorities have the discretion under Circular 59 and Circular 698 to make adjustments to taxable capital gains based on the difference between the fair value of the equity interests transferred and the cost of the corresponding investment. If the PRC tax authorities make such an adjustment, our income tax costs will be increased.

By promulgating and implementing the circulars, the PRC tax authorities have strengthened their scrutiny over the direct or indirect transfer by non-resident enterprises of equity interests in PRC resident enterprises. For example, Circular 698 specifies that the PRC State Administration of Taxation is entitled to redefine the nature of an equity transfer where offshore holding vehicles are interposed for tax-avoidance purposes and without reasonable commercial purpose. Further, non-resident enterprises may be required to submit filings with the PRC tax authorities to report their indirect transfer of equity interests in a PRC resident company if certain criteria are met, i.e., where the transferred offshore holding vehicle is incorporated in a tax jurisdiction where the capital gain tax rate is less than 12.5%. It is not clear to what extent the holders of our shares or ADS may be subject to these requirements. We have conducted and may conduct acquisitions and dispositions involving complex corporate structures, and we may not be able to make timely filings with the PRC tax authorities as required. The PRC tax authorities may, at their discretion, impose or adjust the capital gains on us or the holders of our shares or ADS or request us or the holders of our shares or ADS to submit additional documentation for their review in connection with any relevant acquisition or disposition, and thus cause us or the holders of our shares or ADS to incur additional costs.

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**Risks Relating to Doing Business in China**

*Adverse changes in political and economic policies of the PRC government could have a material adverse effect on the overall economic growth of China, which could reduce the demand for our services and materially and adversely affect our competitive position.*

Since substantially all of our business operations are conducted in China, our business, financial condition, results of operations and prospects are significantly affected by economic, political, social and legal developments in China, and by continued growth in China as a whole. The Chinese economy differs from the economies of most developed countries in many respects, including:

- the degree of government involvement;
- the level of development;
- the growth rate;
- the control of foreign exchange;
- access to financing; and
- the allocation of resources.

The Chinese economy has been transitioning from a planned economy to a more market-oriented economy. Although the PRC government has in recent years implemented measures emphasizing the utilization of market forces for economic reform, the reduction of state ownership of productive assets and the establishment of sound corporate governance in business enterprises, a substantial portion of the productive assets in China is still owned by the PRC government. The continued control of these assets and other aspects of the national economy by the PRC government could materially and adversely affect our business. 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.

While the Chinese economy has grown significantly in the past 30 years, the growth has been uneven, both geographically and among various sectors of the economy. The PRC government has implemented various measures to encourage or contain economic growth and guide the allocation of resources. Some of these measures benefit the overall Chinese economy, but may also have a negative effect on our operations. For example, our results of operations and financial condition may be materially and adversely affected by government control over capital investments or changes in tax regulations that are applicable to us. In addition, in the past the PRC government has implemented certain measures, including increases in interest rates and the reserve requirement ratio of the People's Bank of China, or the PBOC, to control the pace of growth. For instance, from late 2003 to mid-2008, the PRC government implemented a number of measures, such as increasing the statutory deposit reserve ratio of the PBOC and imposing commercial bank lending guidelines, which had the effect of slowing the growth of credit availability. The PBOC increased the statutory deposit reserve ratio in order to control China's rapid growth from early 2010 to mid-2011.

It is unclear whether PRC economic policies will be effective in sustaining stable economic growth in the future. In addition, other economic measures, as well as future actions and policies of the PRC government, could also materially affect our liquidity and access to capital and our ability to operate our business. Substantially all of our assets are located in China and substantially all of our revenues are derived from our operations in China. Accordingly, our business, financial condition, results of operations and prospects are subject, to a significant extent, to economic, political and legal developments in China.

*Uncertainties with respect to the PRC legal system could limit the protections available to you and us.*

The PRC legal system is a civil law system based on written statutes. Unlike in the common law system, prior court decisions may be cited for reference but have limited precedential value. Since 1979, PRC legislation and regulations have significantly enhanced the protections afforded to various forms of foreign investments in China. We conduct substantially all of our business through our subsidiary and consolidated affiliates and their subsidiaries established in China. However, since the PRC legal system continues to rapidly evolve, the interpretations of many laws, regulations and rules are not always uniform and enforcement of these laws, regulations and rules involve uncertainties, which may limit legal protections available to us. For example, we may have to resort to administrative and court proceedings to enforce the legal protection that we enjoy either by law or contract. However, since PRC administrative and court authorities have significant discretion in interpreting and implementing statutory and contractual terms, it may be more difficult to evaluate the outcome of Chinese administrative and court proceedings and the level of legal protection we enjoy in China than in more developed legal systems. These uncertainties may impede our ability to enforce the contracts we have entered into with our employees, business partners, customers and suppliers. In addition, such uncertainties, including the inability to enforce our contracts, could materially and adversely affect our business and operations. Furthermore, intellectual property rights and confidentiality protections in China may not be as effective as in the United States or other countries. Accordingly, 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 thereof, or the preemption of local regulations by national laws. These uncertainties could limit the legal protections available to us and other foreign investors. In addition, any litigation in China may be protracted and result in substantial costs and diversion of our resources and management attention.

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***Fluctuations in exchange rates of the Renminbi could materially affect our reported results of operations.***

The exchange rates between the Renminbi and the U.S. dollar, Euro and other foreign currencies is affected by, among other things, changes in China's political and economic conditions. In July 2005, the PRC government changed its policy of pegging the value of the Renminbi to the U.S. dollar, and the Renminbi was permitted to fluctuate within a band against a basket of certain foreign currencies. As a result, the Renminbi appreciated more than 20% against the U.S. dollar over the following three years. However, the People's Bank of China regularly intervenes in the foreign exchange market to limit fluctuations in RMB exchange rates and achieve policy goals. For almost two years after July 2008, the RMB traded within a very narrow range against the U.S. dollar, remaining within 1% of its July 2008 high. As a consequence, the RMB fluctuated significantly during that period against other freely traded currencies, in tandem with the U.S. dollar. In June 2010, the PRC government announced that it would increase RMB exchange rate flexibility. However, it remains unclear how this flexibility might be implemented. In 2012, the RMB appreciated 0.25% against the U.S. dollar. There remains significant international pressure on the PRC government to adopt a more flexible currency policy, which could result in a further and more significant appreciation of the Renminbi against the U.S. dollar.

As we may rely on dividends and other fees paid to us by our subsidiary and affiliated consolidated entities in China, any significant revaluation of the Renminbi may materially and adversely affect our cash flows, revenues, earnings and financial position, and the value of, and any dividends payable on, our ADSs in U.S. dollars. To the extent that we need to convert U.S. dollars we received from our initial public offering into Renminbi for our operations, appreciation of the Renminbi against the U.S. dollar would have an adverse effect on the Renminbi amount we would receive from the conversion. Conversely, if we decide to convert our Renminbi into U.S. dollars for the purpose of making payments for dividends on our ordinary shares or ADSs or for other business purposes or commercial reasons, appreciation of the U.S. dollar against the Renminbi would have a negative effect on the U.S. dollar amount available to us. For example, the foreign currency exchange gain recorded in our statement of comprehensive income decreased significantly from RMB19.3 million for 2011 to RMB1.9 million for 2012. The decrease was mainly due to the lower RMB appreciation rate in 2012 as compared to 2011 as it applied to the majority of the net proceeds from our initial public offering that we converted into RMB and have been held by Phoenix New Media Limited whose functional currency is the U.S. dollar. Our results of operations are sensitive to changes in exchange rates of the Renminbi. Future fluctuations that are adverse to us could have a material adverse effect on our results of operation, financial condition or liquidity.

***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, our management or the experts named in this annual report.***

We conduct substantially all of our operations in China and substantially all of our assets are located in China. In addition, a majority of our senior executive officers reside within China. As a result, it may not be possible to effect service of process within the United States or elsewhere outside China upon our senior executive officers, including with respect to matters arising under U.S. federal securities laws or applicable state securities laws. Moreover, our PRC counsel has advised us that China does not have treaties with the United States or many other countries providing for the reciprocal recognition and enforcement of legal judgments.

***PRC regulation of loans and direct investment by offshore holding companies to PRC entities may delay or prevent us from using the net proceeds from our initial public offering to make loans or additional capital contributions to our PRC subsidiary and affiliated consolidated entities.***

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In utilizing the net proceeds from our initial public offering, as an offshore holding company of our PRC subsidiary and affiliated consolidated entities, we may make loans to our PRC subsidiary and affiliated consolidated entities, or we may make additional capital contributions to our PRC subsidiary. Any loans to our subsidiary or affiliated consolidated entities in China are subject to PRC regulations, registrations and/or approvals. For example, loans by us, as an offshore holding company, to our affiliated consolidated entities must be approved by the relevant government authorities and registered with the State Administration of Foreign Exchange or SAFE, or its local counterpart. If we provide loans to our PRC subsidiary, the total amount of such loans may not exceed the difference between its total investment as approved by the foreign investment authorities and its registered capital at the time of the provision of such loans. Such loans need to be registered with the SAFE which usually takes no more than 20 working days to complete. The cost of completing such registration is minimal. We may also determine to finance our PRC subsidiary by means of capital contributions. These capital contributions must be approved by MOFCOM or its local counterpart. Because the affiliated consolidated entities are domestic PRC enterprises, we are not likely to finance their activities by means of capital contributions due to regulatory issues relating to foreign investment in domestic PRC enterprises, as well as the licensing and other regulatory issues. We cannot assure you that we can obtain the required government registrations or approvals on a timely basis, if at all, with respect to future loans or capital contributions by us to our PRC subsidiary or any of the affiliated consolidated entities. If we fail to receive such registrations or approvals, our ability to use the net proceeds from our initial public offering and to fund our operations in China would be negatively affected which would adversely and materially affect our liquidity and our ability to expand our business.

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In addition, on August 29, 2008, SAFE promulgated the *Circular on the Relevant Operating Issues Concerning the Improvement of the Administration of the Payment and Settlement of Foreign Currency Capital of Foreign Invested Enterprises*, or SAFE Circular 142, regulating the conversion by a foreign-invested enterprise of foreign currency registered capital into Renminbi by restricting how the converted Renminbi may be used. SAFE Circular 142 provides that the Renminbi capital converted from foreign currency registered capital of a foreign-invested enterprise may only be used within the business scope approved by the applicable governmental authority and may not be used for equity investments within the PRC, unless it is provided for otherwise. In addition, SAFE strengthened its oversight of the flow and use of the Renminbi capital converted from foreign currency registered capital of a foreign-invested company. The use of such Renminbi capital may not be altered without SAFE approval, and such Renminbi capital may not in any case be used to repay Renminbi loans if the proceeds of such loans have not been used. We expect that if we convert the net proceeds we receive from our initial public offering into Renminbi and repatriate these funds into China pursuant to SAFE Circular 142, our use of Renminbi funds will be for purposes within the approved business scope of our PRC subsidiary. Such business scope permits our PRC subsidiary to provide technical and operational support to our affiliated consolidated entities. However, we may not be able to use such Renminbi funds to make equity investments in the PRC through our PRC subsidiary.

***If the PRC government finds that our PRC beneficial owners are subject to the SAFE registration requirement under SAFE Circular No. 75 and the relevant implementing rules and our PRC beneficial owners fail to comply with such registration requirements, such PRC beneficial owners may be subject to personal liability, our ability to acquire PRC companies or to inject capital into our PRC subsidiary may be limited, our PRC subsidiary's ability to distribute profits to us may be limited, or our business may be otherwise materially and adversely affected.***

SAFE has promulgated several regulations, including the *Circular on Several Issues concerning Foreign Exchange Administration for Domestic Residents to Engage in Financing and in Return Investments via Overseas Special Purpose Companies*, or SAFE Circular No. 75, effective on November 1, 2005, and the relevant implementing rules thereunder. These regulations require PRC residents, including both legal persons and natural persons, to register with the competent local SAFE branch before establishing or controlling any company outside of China, referred to as an offshore special purpose company, for the purpose of acquiring any assets of or equity interest in PRC companies and raising funds from overseas. PRC residents may also register with competent local SAFE branch after the establishment of such offshore special purpose company, provided that there shall be no material change to the capital or equity of the offshore special purpose company before completion of such registration. In addition, any PRC resident that is the shareholder of an offshore special purpose company is required to amend his or her SAFE registration with the local SAFE branch, with respect to any material events of that offshore special purpose company, such as any increase or decrease of its capital, transfer of shares, merger, division, equity investment or creation of any security interest over any assets located in China. Furthermore, PRC subsidiaries of an offshore special purpose company are required to coordinate and supervise the filing of a SAFE registration by the offshore special purpose company's shareholders who are PRC residents in a timely manner. See Item 4. Information on the Company B. Business Overview Regulatory Matters Regulation of Foreign Exchange Registration of Offshore Investment by PRC Residents .

Based on the opinion of our PRC counsel, Zhong Lun Law Firm, we understand that the aforesaid registration requirement under SAFE Circular No. 75 and the relevant implementing rules do not apply to our PRC subsidiary or our PRC resident beneficial owners due to the following reasons: (i) our company was incorporated and controlled by Phoenix TV, a Hong Kong listed company, rather than any PRC residents defined under SAFE Circular No. 75; (ii) none of the former or current shareholders of our PRC consolidated affiliated entities established or acquired interest in our company by injecting the assets of, or equity interest in, our consolidated affiliated entities; and (iii) before the public listing of our ADSs, all of our PRC resident beneficial owners obtained interest in our company through exercise of options granted to them under our employee share option plan. However, we cannot assure you that the PRC government would hold the same opinion as us, and the relevant government authorities have broad discretion in interpreting these rules and regulations. If SAFE or any of its local branches requires our PRC resident beneficial owners to register their interest in our company pursuant to SAFE Circular No 75 and the related implementing rules, we will request our PRC resident beneficial owners to make the necessary registration, filings and amendments as required. However, we cannot provide any assurances that these PRC resident beneficial owners will apply for and complete any applicable registrations, filing and amendments. The failure or inability of such PRC resident beneficial owners to do so may subject our PRC subsidiary to fines or legal sanctions, restrictions on our cross-border investment activities or our PRC subsidiary's ability to distribute dividends to, or obtain foreign-exchange-dominated loans from, our company, or prevent us from making distributions or paying dividends. As a result, our business operations and our ability to make distributions to you could be materially and adversely affected.



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

Under the applicable PRC regulations, domestic individuals (including PRC residents and non-PRC residents who reside in the PRC for a continuous period of not less than one year, excluding the foreign diplomatic personnel and representatives of international organizations) who participate in an stock incentive plan in an overseas publicly-listed company are required to register with SAFE and complete certain other procedures. These participants should retain a PRC domestic agent, which can be a subsidiary of the overseas listed company in China, to handle various foreign exchange matters associated with their stock incentive plans. In addition, such domestic individuals shall also retain an overseas entrusted institution to handle matters in connection with the exercise or sale of stock options for the stock incentive plan participants. The PRC domestic agents should, on behalf of the domestic individuals, apply annually to SAFE or its competent local branches for a quota for the conversion and/or payment of foreign currencies in connection with the domestic individuals' exercise of the employee stock options. The foreign exchange proceeds received by the domestic individuals from sale of shares under the stock incentive plans granted by the overseas listed companies must be remitted into the bank accounts in China opened by PRC domestic agents. See Item 4. Information on the Company B. Business Overview Regulatory Matters SAFE Regulation on Stock Incentive Plan. We and our employees who are domestic individuals participating in stock incentive plans are subject to these regulations. If we or such employees fail to comply with these regulations, we or such employees may be subject to fines and other legal or administrative sanctions.

***The approval of the China Securities Regulatory Commission, or the CSRC, may have been required in connection with our initial public offering. Our failure to obtain this approval, if required, could have a material adverse effect on our business, operating results, reputation and trading price of our ADSs.***

According to the 2006 M&A Rules, an offshore special purpose vehicle, or SPV, refers to an overseas company controlled directly or indirectly by domestic companies or individuals for purposes of overseas listing of equity interests in domestic companies (defined as enterprises in the PRC other than foreign invested enterprises). If an SPV purchases, for the purpose of overseas listing and by means of paying consideration in shares of such SPV, domestic interests held by PRC domestic companies or individuals controlling such SPV, then the overseas listing by the SPV must obtain the approval of the CSRC. However, the applicability of the 2006 M&A Rules with respect to CSRC approval is unclear. The CSRC currently has not issued any definitive rule concerning whether offerings like the offering contemplated by our company are subject to the 2006 M&A Rules and related clarifications.

Our PRC counsel, Zhong Lun Law Firm, has advised us that the 2006 M&A Rules do not require that we obtain prior CSRC approval for the listing and trading of our ADSs on the New York Stock Exchange, given that:

- the CSRC approval requirement applies to SPVs that acquired equity interests in PRC companies through share exchanges and seek overseas listing;
- our PRC operating subsidiary was incorporated indirectly by Phoenix TV, a Hong Kong-listed company, rather than a SPV as defined under the 2006 M&A Rules; and

- our PRC operating subsidiary was incorporated as a wholly foreign-owned enterprise by means of direct investment rather than by merger or acquisition by our company of the equity interest or assets of any domestic company as defined under the 2006 M&A Rules, and no provision in the 2006 M&A Rules classifies the contractual arrangements between our PRC operating subsidiary and each of the affiliated consolidated entities as a type of acquisition transaction falling under the 2006 M&A Rules.

Our PRC counsel has further advised us that there are uncertainties regarding the interpretation and application of relevant PRC laws, regulations and rules. If the CSRC subsequently determines that its prior approval is required, we may face regulatory actions or other sanctions from the CSRC or other PRC regulatory agencies. These regulatory agencies may impose fines and penalties on our operations, limit our operating privileges, delay or restrict sending the proceeds from our initial public offering into China, or take other actions that could have a material adverse effect on our business, financial condition, results of operations, reputation and prospects, as well as the trading price of our ADSs.

We cannot predict when the CSRC may promulgate additional rules or other guidance, if at all. Implementing rules or guidance, to the extent issued, may fail to resolve current ambiguities under this new PRC regulation. Uncertainties and/or negative publicity regarding this new PRC regulation could have a material adverse effect on the trading price of our ADSs.

***The approval of MOFCOM may be required in connection with the establishment of our contractual arrangements with the affiliated consolidated entities. Our failure to obtain this approval, if required, could have a material adverse effect on our business, operating results, reputation and trading price of our ADSs.***

The 2006 M&A Rules also provide that approval by MOFCOM is required prior to a foreign company acquiring a PRC domestic company where the foreign company and the domestic company have the same de facto controlling person(s) that are PRC domestic individual(s) or enterprise(s). The applicability of the 2006 M&A Rules with respect to MOFCOM's approval is unclear.

Our PRC legal counsel has advised us that an approval from MOFCOM is not required under 2006 M&A Rules for our contractual arrangements among our PRC operating subsidiary and each of the affiliated consolidated entities, based on their understanding of the current PRC laws, rules and regulations, given that our PRC operating subsidiary was incorporated as a wholly foreign-owned enterprise by means of direct investment rather than by merger or acquisition by our company of the equity interest or assets of any domestic company as defined under the 2006 M&A Rules, and no provision in the 2006 M&A Rules classifies the contractual arrangements between our PRC operating subsidiary and each of the respective affiliated consolidated entities as a type of acquisition transaction falling under the 2006 M&A Rules.

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However, if MOFCOM subsequently determines that its prior approval was required for our contractual arrangements with the affiliated consolidated entities, we may face regulatory actions or other sanctions from MOFCOM or other PRC regulatory agencies. These regulatory agencies may impose fines and penalties on us and the affiliated consolidated entities, require us to restructure our ownership structure or operations, limit our operations, delay or restrict sending the net proceeds from our initial public offering into China, or take other actions. These regulatory actions could have a material adverse effect on our business, financial condition, results of operations, reputation and prospects, as well as the trading price of our ADSs.

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

The PRC government imposes controls on the convertibility of the Renminbi into foreign currencies and, in certain cases, the remittance of currency out of China. We receive substantially all of our revenues in Renminbi. Under our current corporate structure, our income is primarily derived from dividend payments from our PRC subsidiary. Shortages in the availability of foreign currency may restrict the ability of our PRC subsidiary to remit sufficient foreign currency to pay dividends or other payments to us, or otherwise satisfy their foreign currency-denominated obligations. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures from trade related transactions, can be made in foreign currencies without prior approval from the SAFE by complying with certain procedural requirements. However, approval from the SAFE or its local branch is required where Renminbi is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of loans denominated in foreign currencies. The PRC government may also at its discretion restrict access in the future to foreign currencies for current account transactions. If the foreign exchange control system prevents us from obtaining sufficient foreign currency to satisfy our currency demands, we may not be able to pay dividends in foreign currencies to our shareholders, including holders of our ADSs.

***Dividends we receive from our operating subsidiary located in the PRC may be subject to PRC withholding tax.***

The PRC Enterprise Income Tax Law, or the EIT Law, provides that a maximum income tax rate of 20% may be applicable to dividends payable to non-PRC investors that are non-resident enterprises, to the extent such dividends are derived from sources within the PRC, and the State Council of the PRC has reduced such rate to 10% through the implementation regulations. We are a Cayman Islands holding company and substantially all of our income may be derived from dividends we receive from our subsidiary located in the PRC. Thus, dividends paid to us by our subsidiary in China may be subject to the 10% income tax if we are considered as a non-resident enterprise under the EIT Law. If we are required under the EIT Law to pay income tax for any dividends we receive from our subsidiary in China, it would materially and adversely affect the amount of dividends, if any, we may pay to our shareholders and ADS holders.

***We may be deemed a PRC resident enterprise under the EIT Law and be subject to the PRC taxation on our worldwide income.***

The EIT Law also provides that enterprises established outside of China whose de facto management bodies are located in China are considered resident enterprises and are generally subject to the uniform 25% enterprise income tax rate as to their worldwide income. Under the implementation regulations for the EIT Law issued by the PRC State Council, de facto management body is defined as a body that has material and overall management and control over the manufacturing and business operations, personnel and human resources, finances and treasury, and acquisition and disposition of properties and other assets of an enterprise. Although substantially all of our operational management is currently based in the PRC, it is unclear whether PRC tax authorities would treat us as a PRC resident enterprise. Despite the present uncertainties as a result of limited guidance from PRC tax authorities on the issue, we do not believe that our legal entities organized outside of the PRC should be treated as residents under the EIT Law. If we are treated as a resident enterprise for PRC tax purposes, we will be subject to PRC tax on our worldwide income at the 25% uniform tax rate, which could have an impact on our effective tax rate and an adverse effect on our net income

and results of operations.

***Dividends payable by us to our foreign investors and gain on the sale of our ADSs or ordinary shares may become subject to taxes under PRC tax laws.***

Under the EIT Law and implementation regulations issued by the State Council, PRC withholding tax at the rate of 10% is applicable to dividends payable to investors that are non-resident enterprises, which do not have an establishment or place of business in the PRC, or which have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business, to the extent such dividends have their sources within the PRC. Similarly, any gain realized on the transfer of ADSs or shares by such investors is also subject to 10% PRC income tax if such gain is regarded as income derived from sources within the PRC. The implementation regulations of the EIT Law set forth that, (i) if the enterprise that distributes dividends is domiciled in the PRC, or (ii) if gains are realized from transferring equity interest of enterprises domiciled in the PRC, then such dividends or capital gains are treated as China-sourced income. It is not clear how domicile may be interpreted under the EIT Law, and it may be interpreted as the jurisdiction where the enterprise is a tax resident. Therefore, if we are considered a PRC tax resident enterprise for tax purposes, the dividends we pay with respect to our ordinary shares or ADSs, or the gain you may realize from the transfer of our ordinary shares or ADSs, may be treated as income derived from sources within the PRC and be subject to PRC withholding tax. Furthermore, it is unclear in these circumstances whether holders of our ordinary shares or ADSs would be able to claim the benefit of income tax treaties entered into between China and other countries or regions. If we are required under the EIT Law to withhold PRC income tax on dividends payable to our non-PRC investors that are non-resident enterprises, or if you are required to pay PRC income tax on the transfer of our ordinary shares or ADSs, the value of your investment in our ordinary shares or ADSs may be materially and adversely affected.

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***We may be required to register our operating offices not located at our residence addresses as branch companies under PRC law.***

Under PRC law, a company setting up premises outside its resident address for business operations must register such operating offices with the relevant local industry and commerce bureau at the place where such premises are located as branch companies and shall obtain business licenses for such branches. Our affiliated consolidated entities have operations at locations other than their respective resident addresses. If the PRC regulatory authorities determine that we are in violation of relevant laws and regulations, we may be subject to relevant penalties, including fines, confiscation of income, and suspension of operation. If we are subject to these penalties, our business, results of operations, financial condition and prospects could be materially and adversely affected.

***The audit report included in this annual report is prepared by an auditor who is not inspected by the Public Company Accounting Oversight Board and, as such, you are deprived of the benefits of such inspection.***

Auditors of companies that are registered with the US Securities and Exchange Commission and traded publicly in the United States, including our independent registered public accounting firm, must be registered with the United States Public Company Accounting Oversight Board, or the PCAOB, and are required by the laws of the United States to undergo regular inspections by the PCAOB to assess their compliance with the laws of the United States and professional standards. Because our auditors are located in the Peoples Republic of China, a jurisdiction where the PCAOB is currently unable to conduct inspections without the approval of the Chinese authorities, our auditors are not currently inspected by the PCAOB.

This lack of PCAOB inspections in China prevents the PCAOB from regularly evaluating audits and quality control procedures of any auditors operating in China, including our auditors. As a result, investors may be deprived of the benefits of PCAOB inspections.

The inability of the PCAOB to conduct inspections of auditors in China makes it more difficult to evaluate the effectiveness of our auditor's audit procedures or quality control procedures as compared to auditors outside of China that are subject to PCAOB inspections. Investors may lose confidence in our reported financial information and procedures and the quality of our financial statements.

***Proceedings instituted recently by the SEC against five PRC-based accounting firms, including our independent registered public accounting firm, could result in our financial statements being determined to not be in compliance with the requirements of the Securities Exchange Act of 1934.***

In December 2012, the SEC instituted proceedings under Rule 102(e)(1)(iii) of the SEC's Rules of Practice against five PRC-based accounting firms, including our independent registered public accounting firm, alleging that these firms had violated U.S. securities laws and the SEC's rules and regulations thereunder by failing to provide to the SEC the firms' work papers related to their audits of certain PRC-based companies that are publicly traded in the United States. Rule 102(e)(1)(iii) grants to the SEC the authority to deny, temporarily or permanently, the ability to practice before the SEC to any person who is found by the SEC, after notice and opportunity for a hearing, to have willfully violated any such laws or rules and regulations. While we cannot predict the outcome of the SEC's proceedings, if our independent registered public accounting firm were denied, temporarily or permanently, the ability to practice before the SEC, and we are unable to timely find another registered public accounting firm which can audit and issue a report on our financial statements, our financial statements could be determined to not be in compliance with the requirements for financial statements of public companies with a class of securities registered under the Securities

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Exchange Act of 1934, as amended, or the Exchange Act. Such a determination could ultimately lead to the delisting of our ADSs from the New York Stock Exchange, which event would effectively terminate the trading market for our ADSs in the United States, and/or to the SEC's revoking the registration of our Class A ordinary shares and ADSs under the Exchange Act pursuant to Section 12(j) thereof, in which event broker-dealers thereafter would be prohibited from effecting transactions in, or inducing the purchase or sale of, our common stock in the United States.

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***Recent press reports concerning possible increased scrutiny by Chinese authorities of the variable interest entity, or VIE, structure used by us and various other Chinese companies publicly-traded in the United States appear to have created concern among investors and caused the price of our common stock to drop, and such reports may have such an effect in the future.***

We operate a VIE structure in which substantially all of our operations in China are conducted by our affiliated consolidated entities, in which we do not own any equity interest, through our contractual arrangements. In the recent past, various prominent Western news outlets reported that the PRC Ministry of Commerce and the China Securities Regulatory Commission, among other Chinese regulatory authorities, may be considering increased scrutiny or enhanced regulation of Chinese companies that use VIE structures as a means of complying with Chinese laws prohibiting or restricting foreign ownership of certain businesses in China, including businesses we are engaged in such as Internet information, content and services, online and mobile advertising, and mobile Internet and other value-added telecommunication services. Some of such news reports have also sought to draw a connection between recent widely reported accounting issues at certain Chinese companies and the use of VIE structures. Such news reports appear to have had the effect of causing significant drops in the market prices of the shares of several Chinese companies, including us, that are publicly-traded in the United States. We believe even if any such Chinese regulatory authorities were to increase scrutiny of VIE structures or adopt regulations specifically governing their use, the possibility is remote that any such scrutiny would have a material adverse impact on us or cause us to change our existing operational structure in any materially adverse way. However, it is possible that there will be such increased scrutiny or enhanced regulation in the future. In addition, while we are not aware of any causal connection between the recently reported accounting scandals and the use of VIE structures, it is possible that investors in our common stock will believe that such a connection exists. Any of such circumstances could lead to further loss of investor confidence in Chinese companies such as ours and cause fluctuations in the market prices of our common stock and, if such prices were to drop sharply, could subject us to shareholder litigation, which could cause the price for our shares to drop further.

**Risks Relating to Our ADSs**

***The market price for our ADSs may be volatile which could result in a loss to you.***

The market price for our ADSs is likely to be highly volatile and subject to wide fluctuations in response to factors, including the following:

- announcements of competitive developments;
- regulatory developments in China affecting us, our clients or our competitors;
- announcements regarding litigation or administrative proceedings involving us;
- actual or anticipated fluctuations in our quarterly operating results;

- changes in financial estimates by securities research analysts;
- addition or departure of our executive officers;
- release or expiry of lock-up or other transfer restrictions on our outstanding ordinary shares or ADSs; and
- sales or perceived sales of additional ordinary shares or ADSs.

In addition, the securities market has from time to time experienced significant price and volume fluctuations that are not related to the operating performance of particular companies. These market fluctuations may also have a material adverse effect on the market price of our ADSs.

*Substantial future sales or perceived sales of our ADSs in the public market could cause the price of our ADSs to decline.*

Sales of our ADSs or ordinary shares in the public market, or the perception that these sales could occur, could cause the market price of our ADSs to decline. As of March 31, 2013, we had 616,267,061 ordinary shares outstanding, including 317,325,360 Class B ordinary shares and 298,941,701 Class A ordinary shares part of which are represented by 22,671,033 ADSs. All ADSs sold in our initial public offering are freely transferable without restriction or additional registration under the Securities Act of 1933, as amended, or the Securities Act. The remaining ordinary shares outstanding are available for sale upon the expiration of any relevant lock-up periods, subject to volume and other restrictions that may be applicable under Rule 144 and Rule 701 under the Securities Act. In addition, ordinary shares that certain option holders will receive when they exercise their share options will not be available for sale until the expiration of any relevant lock-up periods, subject to volume and other restrictions that may be applicable under Rule 144 and Rule 701 under the Securities Act. We cannot predict what effect, if any, market sales of securities held by our significant shareholders or any other shareholder or the availability of these securities for future sale will have on the market price of our ADSs.

In addition, certain of our shareholders or their transferees and assignees will have the right to cause us to register the sale of their shares under the Securities Act upon the occurrence of certain circumstances. See Item 7. Major Shareholders and Related Party Transactions B. Related Party Transactions Private Placement. Registration of these shares under the Securities Act would result in these shares becoming freely tradable without restriction under the Securities Act immediately upon the effectiveness of the registration. Sales of these registered shares in the public market could cause the price of our ADSs to decline.

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***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 1.3 votes per share. Phoenix TV (BVI), which is wholly owned by Phoenix TV, holds Class B ordinary shares, each of which is convertible into one Class A ordinary share at any time by the holder thereof. Class A ordinary shares are not convertible into Class B ordinary shares under any circumstances. Due to the disparate voting rights attached to these two classes, Phoenix TV (BVI) has significant voting rights over matters requiring shareholder approval, including the election and removal of directors and certain corporate transactions, such as mergers, consolidations and other business combinations. 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.

***Anti-takeover provisions in our articles of association may discourage a third party from offering to acquire our company, which could limit your opportunity to sell your ADSs at a premium.***

Our currently effective, second amended and restated articles of association include provisions that could limit the ability of others to acquire control of us, modify our structure or cause us to engage in change of control transactions. These provisions could have the effect of depriving our shareholders of an opportunity to sell their shares at a premium over prevailing market prices by discouraging third parties from seeking to obtain control of us in a tender offer or similar transaction.

For example, our board of directors have the authority, without further action by our shareholders, to issue preference shares in one or more series and to fix the powers and rights of these shares, including dividend rights, conversion rights, voting rights, terms of redemption and liquidation preferences, any or all of which may be greater than the rights associated with our ordinary shares. Preference shares could thus be issued quickly with terms calculated to delay or prevent a change in control or make removal of management more difficult. In addition, if our board of directors issues preference shares, the market price of our ordinary shares may fall and the voting and other rights of the holders of our ordinary shares may be adversely affected.

***As a foreign private issuer, we are permitted to, and we may, rely on exemptions from certain NYSE corporate governance standards applicable to U.S. issuers. This may afford less protection to holders of our ordinary shares and ADSs.***

The NYSE Listed Company Manual in general require listed companies to have, among other things, a majority of its board be independent, an audit committee consisting of a minimum of three members and a nominating and corporate governance committee consisting solely of independent directors. As a foreign private issuer, we are permitted to follow, and we follow, certain home country corporate governance practices instead of the above requirements of the NYSE Listed Company Manual. The corporate governance practice in our home country, the Cayman Islands, does not require a majority of our board to consist of independent directors or the implementation of an audit committee or nominating and corporate governance committee. We rely upon the relevant home country exemption and exemptions afforded to controlled companies in lieu of certain corporate governance practices, such as having less than a majority of the board be independent and establishing an audit committee consisting of two independent directors. As a result, the level of independent oversight over management of our company may afford less protection to holders of our ordinary shares and ADSs.

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*As a foreign private issuer, we are not subject to U.S. proxy rules and are subject to Exchange Act reporting obligations that, to some extent, are more lenient and less frequent than those of a U.S. issuer.*

As a foreign private issuer, we are exempt from certain provisions of the Exchange Act that are applicable to U.S. domestic issuers, including (i) the sections of the Exchange Act regulating the solicitation of proxies, consents or authorizations in respect of a security registered under the Exchange Act, (ii) the sections of the Exchange Act requiring insiders to file public reports of their stock ownership and trading activities and liability for insiders who profit from trades made in a short period of time, and (iii) the rules under the Exchange Act requiring the filing with the SEC of quarterly reports on Form 10-Q containing unaudited financial and other specified information, or current reports on Form 8-K, upon the occurrence of specified significant events. In addition, the executive compensation disclosure requirements to which we will be subject under Form 20-F will be less rigorous than those required of U.S. issuers under Form 10-K. Furthermore, in the fiscal years ending on or after December 15, 2011, foreign private issuers will not be required to file their annual report on Form 20-F until 120 days after the end of each fiscal year, while U.S. domestic issuers that are not large accelerated filers or accelerated filers are required to file their annual report on Form 10-K within 90 days after the end of each fiscal year. Foreign private issuers are also exempt from the Regulation FD, aimed at preventing issuers from making selective disclosures of material information. Although we intend to make quarterly reports available to our shareholders in a timely manner and are required under the Exchange Act to provide current reports on Form 6-K, you may not have the same protections afforded to stockholders of companies that are not foreign private issuers.

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***We are a Cayman Islands company and, because judicial precedent regarding the rights of shareholders is more limited under Cayman Islands law than under U.S. law, you may have less protection of your shareholder rights than you would under U.S. law.***

Our corporate affairs are governed by our second amended and restated memorandum and articles of association, the Cayman Islands Companies Law (as amended) and the common law of the Cayman Islands. The rights of shareholders to take action against the directors, actions by minority shareholders and the fiduciary responsibilities of our directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as from 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 would be under statutes or judicial precedent in some jurisdictions in the United States. In particular, the Cayman Islands has a less developed body of securities laws than the United States. In addition, some U.S. states, such as Delaware, have more fully developed and judicially interpreted bodies of corporate law than the Cayman Islands. Furthermore, 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 may have more difficulties in protecting their interests in the face of actions taken by management, members of the board of directors or controlling shareholders than they would as shareholders of a Delaware company.

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

We are a Cayman Islands company and substantially all of our assets are located outside of the United States. Substantially all of our current operations are conducted in the PRC. In addition, most of our directors and officers are nationals and residents of countries other than the United States. A substantial portion of the assets of these persons are located outside the United States. As a result, it may be difficult for you to effect service of process within the United States upon these persons. It may also be difficult for you to enforce in U.S. courts judgments obtained in U.S. courts based on the civil liability provisions of the U.S. federal securities laws against us and our officers and directors. Moreover, there is uncertainty as to whether the courts of the Cayman Islands or the PRC would recognize or enforce judgments of United States courts against us or such persons predicated upon the civil liability provisions of the securities laws of the United States or any state. In addition, there is uncertainty as to whether such Cayman Islands or PRC courts would be competent to hear original actions brought in the Cayman Islands or the PRC against us or such persons predicated upon the securities laws of the United States or any state.

***Holders of ADSs must act through the depositary to exercise their rights as shareholders of our company.***

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

*The depositary for our ADSs will give us a discretionary proxy to vote our ordinary shares underlying your ADSs if you do not vote at shareholders meetings, except in limited circumstances, which could adversely affect your interests.*

Under the deposit agreement for the ADSs, the depositary will give us a discretionary proxy to vote our ordinary shares underlying your ADSs at shareholders meetings if you do not vote, unless:

- we have failed to timely provide the depositary with our notice of meeting and related voting materials;
- we have instructed the depositary that we do not wish a discretionary proxy to be given;
- we have informed the depositary that there is substantial opposition as to a matter to be voted on at the meeting; or
- a matter to be voted on at the meeting would have a material adverse impact on shareholders.

The effect of this discretionary proxy is that you cannot prevent our ordinary shares underlying your ADSs from being voted, absent the situations described above, and it may make it more difficult for shareholders to influence the management of our company. Holders of our ordinary shares are not subject to this discretionary proxy.

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

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

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*Your right to participate in any future rights offerings may be limited, which may cause dilution to your holdings and you may not receive cash dividends or other distributions if it is impractical to make them available to you.*

We may from time to time distribute rights to our shareholders, including rights to acquire our securities. However, we cannot make rights available to you in the United States unless we register the rights and the securities to which the rights relate under the Securities Act or an exemption from the registration requirements is available. Also, under the deposit agreement, the depositary will not make rights available to you unless either both the rights and any related securities are registered under the Securities Act, or the distribution of them to ADS holders is exempted from registration under the Securities Act. We are under no obligation to file a registration statement with respect to any such rights or securities or to endeavor to cause such a registration statement to be declared effective. Moreover, we may not be able to establish an exemption from registration under the Securities Act. Accordingly, you may be unable to participate in our rights offerings and may experience dilution in your holdings.

In addition, the depositary has agreed to pay to you the cash dividends or other distributions it or the custodian receives on our 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 may, at its discretion, decide that it is impractical to make a distribution available to any holders of ADSs. For example, the depositary may determine that it is not practicable to distribute certain property through the mail, or that the value of certain distributions may be less than the cost of mailing them. In these cases, the depositary may decide not to distribute such property and you will not receive any such distribution.

**ITEM 4. INFORMATION ON THE COMPANY**

**A. History and Development of the Company**

Phoenix TV registered the domain name phoenixtv.com for its corporate website in 1998. Tianying Jiuzhou began operating this website after its establishment in April 2000. As part of the reorganization before its initial public offering, in September 1999, Phoenix TV incorporated Phoenix Satellite Television Information Limited in the British Virgin Islands to be the holding company of its new media business.

In November 2005, Mr. Shuang Liu, a vice president of Phoenix TV, was appointed to lead Phoenix TV's new media business. Upon his appointment, Mr. Liu began implementing his vision to transform the business from a mere corporate website of Phoenix TV into a new media company capitalizing on the future of new media convergence. Yifeng Lianhe was established in June 2006 to provide new media mobile services in China. In July 2007, Tianying Jiuzhou registered the domain name ifeng.com and redirected the traffic of phoenixtv.com and phoenixtv.com.cn to ifeng.com.

On November 22, 2007, Phoenix New Media Limited, an exempted limited liability company, was incorporated in the Cayman Islands as a subsidiary of Phoenix TV to be the holding company for its new media business. In May 2008, Phoenix Satellite Television (B.V.I.) Holding Limited transferred the sole outstanding share of Phoenix Satellite Television Information Limited to us in exchange for 319,999,999 ordinary shares of our company.

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Fenghuang On-line was established in December 2005. On December 31, 2009, Fenghuang On-line entered into a series of contractual arrangements with each of our affiliated consolidated entities, Tianying Jiuzhou and Yifeng Lianhe, and their respective shareholders to govern our relationships with the affiliated consolidated entities, at which time we became operational in our current corporate structure. These contractual arrangements allow us to effectively control the affiliated consolidated entities and to derive substantially all of the economic benefits from them. See C. Organizational Structure Contractual Arrangements with Our Affiliated Consolidated Entities .

On May 12, 2011, our ADSs began trading on the New York Stock Exchange under the ticker symbol FENG. We closed our initial public offering on May 17, 2011 and the underwriters subsequently exercised their over-allotment option on June 8, 2011. We issued and sold a total of 13,415,125 ADSs in these transactions, representing 107,321,000 Class A ordinary shares in the form of ADSs, raising US\$137.2 million in proceeds to us before expenses but after underwriting discounts and commissions.

Our principal executive offices are located at Sinolight Plaza, Floor 16, No. 4 Qiyang Road, Wangjing, Chaoyang District, Beijing 100102, People's Republic of China. Our telephone number at this address is +(86) 10 6067 6000. Our registered office in the Cayman Islands is located at the offices of Codan Trust Company (Cayman) Limited, Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. Our agent for service of process in the United States is Law Debenture Corporate Services Inc., located at 400 Madison Avenue, 4th Floor, New York, New York 20017.

### **B. Business Overview**

We are a leading new media company providing premium content on an integrated platform across Internet, mobile and TV channels in China. Having originated from a leading global Chinese language TV network based in Hong Kong, Phoenix TV, we enable consumers to access professional news and other quality information and UGC, on the Internet and through their mobile devices. We also transmit our UGC and in-house produced content to TV viewers primarily through Phoenix TV. Our platform includes our ifeng.com channel, consisting of our ifeng.com website, our video channel, comprised of our dedicated video vertical and video services and applications, and our mobile channel, including our mobile Internet website, MIVAS and mobile applications. The appeal of our brand is enhanced by its affiliation with the Phoenix ( ) brand of Phoenix TV.

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According to iResearch, our online daily unique visitors increased from 20.0 million in December 2011 to 32.7 million in December 2012, and monthly unique visitors increased from 182.4 million in December 2011 to 261.7 million in December 2012. We have ranked fourth among all portals in China in terms of monthly effective user time spent since October 2011, according to iResearch. According to our internal data, our daily mobile page views reached 234.5 million in December 2012. We earn revenues from advertising and paid services, which accounted for 54.9% and 45.1% of our total revenues, respectively, in 2012.

Our net advertising revenues collectively accounted for 38.7%, 49.0% and 54.9% of our total revenues in 2010, 2011 and 2012, respectively. We provide advertising services through our online and video channels primarily, and to a small extent, through our mobile channel. We recognize revenues from our advertising services on a net basis, deducting the agency service fees we pay to advertising agencies. Our number of advertisers reached 502, 558 and 522 as of December 31, 2010, 2011 and 2012, respectively. Driven primarily by increases in average revenue per advertiser, or ARPA, our net advertising revenues increased from RMB204.4 million in 2010, to RMB465.8 million in 2011, and to RMB610.2 million (US\$97.9 million) in 2012.

We offer a wide variety of paid services through both of our channels, including (i) mobile Internet value-added services, or MIVAS, which include our digital reading services, mobile and web-based game services and wireless value-added services, or WVAS, such as messaging-based services (SMS and MMS), as well as Internet value-added services; and (ii) video value-added services, or video VAS, which consists of our online video paid services, our mobile video paid services and video content sales. We derived 88.9% and 11.1% of our paid service revenues, respectively, from our MIVAS and video VAS in 2012. We generate the majority of our paid service revenues from our WVAS, digital reading services, mobile games and mobile video paid services by providing content to mobile device users and collecting revenue shares from the relevant mobile operator. We also earn paid service revenues in the form of fixed fees from China Mobile, for digital reading services. These offerings have driven the growth of our paid service revenues from RMB324.3 million in 2010, to RMB484.8 million in 2011, and to RMB500.8 million (US\$80.4 million) in 2012.

**Our Relationship with Phoenix TV**

We are a subsidiary of Phoenix TV, a leading Hong Kong-based satellite TV network broadcasting Chinese language content globally and into China. Phoenix TV indirectly owned 51.5% of our ordinary shares and 58.0% of the voting power of our ordinary shares as of March 31, 2013. Fenghuang On-line and Phoenix TV entered into a cooperation agreement, or the Phoenix TV Cooperation Agreement, on November 24, 2009. Under this agreement, Fenghuang On-line and Phoenix TV agreed to certain cooperative arrangements in the areas of content, branding promotion and technology, and Phoenix TV agreed to procure, and procured, its subsidiaries, Phoenix Satellite Television Company Limited and Phoenix Satellite Television Trademark Limited, to enter into the Content License Agreements and Trademark License Agreements, respectively, with each of our affiliated consolidated entities on November 24, 2009.

We have a mutually beneficial relationship with Phoenix TV. We and Phoenix TV share a common vision of the convergence of traditional and new media channels, and work together to realize this vision. While we furnish Phoenix TV with access to our new media delivery channels, Phoenix TV enables us to display our proprietary content on its TV programs. Pursuant to the Content License Agreements, Phoenix Satellite Television Company Limited has also granted each of our affiliated consolidated entities an exclusive license to use its content on our Internet and mobile channels in China. These licenses help to distinguish our content offerings from those of other Internet and new media companies in China. We believe that our and Phoenix TV's active promotion of one another's brands on our respective Internet-enabled and TV platforms helps to grow our combined audience synergistically. For more information about the terms of each of the Phoenix TV Cooperation Agreement, the Content License Agreements and the Trademark License Agreements, see C. Organizational Structure Our Relationship with Phoenix TV. For more information about the risks associated with our relationship with Phoenix TV, see Item 3 Key Information D. Risk Factors Risks Relating to Our Business and Industry We may not be able to receive the same level of support from Phoenix TV in the future. We could lose our exclusive

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license to Phoenix TV's content, which would have a material adverse effect on our video VAS business, which accounted for 5.0% of our total revenues in 2012, and would also negatively affect our video advertising business. Together these impacts could have a material adverse effect on our business and results of operations and Item 3 Key Information D. Risk Factors Risks Relating to Our Corporate Structure We may have conflicts of interests with Phoenix TV and, because of Phoenix TV's controlling interest in our company, may not be able to resolve such conflicts on terms favorable to us.

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**Our Content**

We strive to deliver the most up-to-date, in-depth, exclusive and thought-provoking content to our users. Content selection, editing and production are core focuses of our business. We obtain our content from four sources: third-party professional media companies, Phoenix TV, our in-house production and UGC. The content we acquire covers a wide spectrum of user-targeted subjects, including news, current affairs, finance, technology, automobiles, fashion and entertainment, among others. We believe that we have provided the earliest video and text media coverage among Chinese media companies of certain major world events. We are uniquely positioned among our peers in China to be able to distribute our content on TV. We feed a substantial amount of in-house produced content and UGC to a number of Phoenix TV's regular prime-time programs each day. We also provide our in-house produced content and UGC to Chinese TV networks, such as Tianjin TV and Shenzhen TV, from time to time.

*Third-Party Professional Content.* We have entered into content licensing agreements with approximately 1,017 professional content providers in aggregate. We obtain our print content from major Chinese print media and news wires and selected international sources. Our Chinese content sources include companies such as China News Service, 21st Century News Group, Xinhua News Agency and the People's Daily, as well as China's top ten image providers. Our international sources include Reuters, The Associated Press and Agence France Presse, among others. The video content we source from third parties is primarily comprised of news and documentaries, which cater to our users' preferences. We obtain our third-party video content from major Chinese television broadcasters, such as CCTV, Zhejiang Satellite TV and Beijing Satellite TV. The content that we source from professional third parties comprises the majority of the content on our website.

*Phoenix TV Content.* Phoenix Satellite Television Company Limited, a wholly owned subsidiary of Phoenix TV, has granted each of our affiliated consolidated entities an exclusive license effective until March 2016 to use its copyrighted content on our Internet and mobile channels in China, pursuant to the Content License Agreements. All of the content we obtain from Phoenix TV is video content. Since Phoenix TV's satellite landing rights in China, outside of Guangdong Province, are limited to international residences and hotels, our integrated platform provides a convenient alternative means for people in China to view Phoenix TV's programs. We offer live streaming broadcasts of the Phoenix Chinese Channel and the Phoenix NewsInfo Channel on ifeng.com, and deliver updated clips from a broad range of Phoenix TV's programs on both our Internet and mobile channels. We are also able to leverage Phoenix Satellite's global media resources, particularly for our news and finance channels.

*Self-developed content.* We produce investigative reports, exclusive video programs and event-based coverage in-house. We frequently conduct interviews with government officials, thought leaders, celebrities and other compelling public figures and we have provided coverage on hundreds of conferences and forums. We transmit a considerable amount of our in-house produced content to Phoenix TV on a frequent basis and to certain Chinese TV networks from time to time.

*UGC.* UGC adds an important interactive component to the content we deliver. We generate text UGC through our discussion forum, blog, micro-blog, light-blog, comment-posting and user survey services. We feed UGC from our discussion forums, surveys, micro-blogs, light-blog and comment postings to Phoenix TV on a number of its regular TV programs. We also maintain a Paiké (similar to CNN's iReporter) team, with more than 2,000 nation-wide paiké contributors, which offers us exclusive first-hand, semi-professional video news content.

***Content Editing and Production***

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Content editing and production are critical components of our content production process. We had a team of 503 editors as of December 31, 2012 organized generally by interest-based vertical. We believe that we possess a strong ability to select and distill compelling news stories and frame issues for our users in a distinctive way. Beyond distributing a large amount of news and information in a timely fashion, we provide independent social commentary and analyses. We edit our videos, primarily consisting of news, documentaries and interviews, into short clips. We organize our content by interest-based vertical and segment it further by featured topic. We actively combine text, image and video content and integrate interactive UGC, aimed at producing an engaging user experience.

### *Content Monitoring*

We implement monitoring procedures to remove inappropriate or illegal content, including UGC from our discussion forum, blog, micro-blog, light-blog, comments postings and user survey services. Our content screening team consists of 52 part-time and full-time editors who are responsible for monitoring and preventing the public release of inappropriate illegal content. Text and images are screened by our content screening team, which reviews the content on a 24-hour, 3-shift basis and employs monitoring procedures, including (i) technology screening, where a text filtering system screens content based on pre-set key words and identifies suspected information; and (ii) manual review, where the content that passes the technology screening is reviewed by the content screening team and the flagged content identified by our technology is reviewed and confirmed before it can be released. For technology screening, we use an in-house developed identification system which enables us to filter UGC in order to comply with PRC regulatory requirements regarding Internet content.

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**Our Channels and Services**

We provide our content and services through three major channels, including our online channel at ifeng.com, our video channel and our mobile channel, and also transmit our content to TV viewers, primarily through Phoenix TV. Together, these channels form a single converged platform providing integrated text, image and video content, and employing a variety of interactive formats to create a rich, personalized and hands-on experience for our users. We derive advertising revenues through our ifeng.com and video channels and, to a smaller extent, through our mobile channel. We generate paid service revenues primarily through our mobile and video channels (MIVAS and video VAS). In addition, we include revenues from Internet value-added services in our revenues from MIVAS.

***Our ifeng.com Channel***

Our ifeng.com channel consists of our website at ifeng.com, which comprises our interest-based verticals, interactive services and web-based game platform.

*Interest-based Verticals.* We currently provide over 40 interest-based verticals, each of which features integrated text, image and video content and embedded interactive services, such as user surveys and comment postings. Since ifeng.com is but one of multiple access points to our converged platform, our users can also access a significant portion of our interest-based verticals content through our mobile channel, including 3g.ifeng.com and MIVAS, and can view in-house produced content and UGC created on these verticals on Phoenix TV's regular programs. Our most popular verticals include:

- *News.* Through our new vertical, ifeng News, users have easy access to breaking new coverage from multiple sources and points of view. Our news vertical also features a large amount of in-depth special reports and embedded interactive services. For our special reports, we not only have dedicated teams deliver in-depth analysis and reports, but also integrated user surveys and comment postings into the featured website, which are often was transmitted to and displayed on Phoenix TV.
- *Finance.* Our finance vertical, ifeng Finance, provides up-to-date information about financial news, securities and personal finance. We have formed relationships with individual industry leaders who contribute to our in-depth reports and discussions we feature on our finance vertical. We also obtain independent finance content from Phoenix TV. Our finance vertical also offers stock quotes from the major exchanges, as well as breaking news from individual listed companies.
- *Automobiles.* Our automobiles vertical, ifeng Auto, offers the latest automobile-related news and information to provide car buyers and automobile enthusiasts with the most current information on automotive pricing, reviews and featured guides.
- *Entertainment.* Our entertainment vertical spans greater China and strives to cover entertainment news and developments in China, Hong Kong, Taiwan and globally among the Chinese community. This vertical provides broad coverage of the latest entertainment news, including dining, movies, television programs, plays, operas, as well as popular and classical music. It features our in-house produced video program of

candid celebrity interviews. We also transmit content from our entertainment vertical to Phoenix TV for use on its Entertainment Whirlwind ( ) and Phoenix Info List ( ) programs and our Real Talk ( ) interviews have been shown on Beijing Satellite TV.

- *Fashion.* Our fashion vertical provides coverage on fashion, beauty, weight loss, luxury goods, travel, furniture, art and other popular topics, all centered on the theme of refined lifestyle. It offers information on international fashion trends and new fashion concepts. Our fashion vertical covers a variety of luxury topics, including wines, cigars, high-end brand apparel and accessories, as well as services aimed at the high net worth population. It also provides real-time coverage of major world fashion events, bringing users the latest information on styles and trends. Our fashion vertical also contributes UGC to Phoenix TV's Trendy Guide ( ) TV program.
- *Military affairs.* Our military affairs vertical provides updated information and commentary on military affairs and defense matters and targets a broad audience, from military professionals to hobbyists. It also provides UGC content to Phoenix TV's Military Observatory Post ( ) TV program.
- *History.* Our history vertical provides content about Chinese and international modern history. We investigate relatively unexplored historical turning points and events and provide in-depth analyses of historical figures and events. Phoenix TV's high quality history programs are one of the sources of material for this vertical.

*Interactive Services.* Our interactive services aim at turning our website into an active venue for social networking and community interaction. These services allow our users to interact with the content we provide, opening up avenues for lively exchange of information. Our micro-blog, light-blog and comment posting services are available on both our Internet and mobile channels. Also through our converged platform, we feed a substantial amount of UGC to prime-time programs of Phoenix TV on a daily basis. By furnishing an engaging user experience across Internet, mobile and TV channels, we believe that community-based interactive services increase user loyalty and stickiness. We currently offer the following interactive services:

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- *Blog.* Our blog site, [blog.ifeng.com](http://blog.ifeng.com), is our most popular interactive service. The site integrates the writings of Phoenix TV's renowned reporters and commentators with the views of bloggers from within China and abroad.
- *Micro-blog.* Our micro-blog site, [t.ifeng.com](http://t.ifeng.com), is an interactive social networking platform for registered users. Users can send and receive messages in the form of text (up to 140 Chinese characters) and multimedia (photo, video and music) content to and from their opted-in followers.
- *Light-blog.* Our light-blog site, [k.ifeng.com](http://k.ifeng.com), is a light-blogging platform which allows registered users to share short texts, posts, images and video content, as well as discover and connect with friends who share similar interests or hobbies.
- *User surveys.* Our user surveys allow users to express their opinions on topics featured on our [ifeng.com](http://ifeng.com) and mobile channels, view up-to-date opinion polls of users generally and compare their views with those of our user community at large. We offer opinion surveys on major featured topics on most of [ifeng.com](http://ifeng.com) and [v.ifeng.com](http://v.ifeng.com). Our survey results also frequently appear on Phoenix TV's programs.
- *Comment posting.* Our comment posting feature allows registered users to post their reactions to and thoughts on our articles and videos and browse the input of other members of the [ifeng.com](http://ifeng.com) community. Our comment postings also frequently appear on Phoenix TV's programs.
- *Discussion forum.* Our discussion forum, [bbs.ifeng.com](http://bbs.ifeng.com), is an interactive feature for rapidly accumulating content centered around current discussion topics. Our discussion forum UGC also frequently appears on Phoenix TV's programs.

*Web-based Game Platform.* We operate third-party developed web-based games on our game platform, [play.ifeng.com](http://play.ifeng.com). Web-based games are games that can be played directly from the user's Internet browser without downloading additional software. Currently our game platform only offers web-based games licensed from third parties. Our game portfolio includes role-playing, strategy and casual games. As of December 31, 2012, we offered a total of 48 licensed web-based games on our platform. We collect payments from game players through the sale of in-game virtual currencies and remit certain agreed-upon percentages of the proceeds to the game developers. The in-game virtual currencies are used by game players to purchase virtual items in the games. We generate revenue from selling in-game virtual currencies net of remittances to game developers and deferred until the estimated consumption date, which is typically within a short period of time after purchase of the in-game virtual currency. We include net revenues from web-based games in our MIVAS revenues.

*Personalized Features.* Our personal center at [my.ifeng.com](http://my.ifeng.com) currently offers a series of personalized features. These include enabling registered users to form a personal community and customize [ifeng.com](http://ifeng.com) content and services to meet their preferences, providing quick access to, and updates on, discussion forums and blogs in which the user has participated, and allowing users to add friends, see their friends' most recent activities on [ifeng.com](http://ifeng.com) and share recommended articles, etc.

*Our Video Channel*

Our video channel is comprised of our (i) dedicated online video vertical at v.ifeng.com, (ii) mobile video paid services and mobile video application and (iii) video content sales business. We offer our video VAS paid services through our video channel, which include our online subscription and pay-per-view services, our mobile subscription and pay-per-view video services and video content sales.

*Our v.ifeng.com Vertical*

Our v.ifeng.com vertical offers four categories of video products and services, namely (i) free online video on demand, or VOD, (ii) live Phoenix TV broadcasts, (iii) subscription online video service and (iv) pay-per-view online video service. We organize and present video content, supplemented by text, images, user surveys and comment postings on our v.ifeng.com vertical to create a value-added user experience that we believe is richer than that of watching traditional TV. According to iResearch, our v.ifeng.com site received 73.0 million average daily page views in December 2012 and the number of average daily unique visitors to our v.ifeng.com site increased by 92.6% from 6.8 million in December 2011 to 13.1 million in December 2012. According to the company's data, our v.ifeng.com site received 60.6 million average daily video views in December 2012.

*Free Online VOD.* Our free online VOD typically consist of short clips of up to five minutes of news programs, interviews, documentaries and other programs. Our VOD content is easily searchable on our website and is organized into 13 verticals of v.ifeng.com for easy browsing, including news, military affairs, documentaries, history, entertainment, movies and TV, style, vblog, VIP channel, Phoenix TV, live broadcast, and original videos.

*Live Phoenix TV Broadcasts.* We offer live streams of Phoenix TV's flagship channels, the Phoenix Chinese Channel and the Phoenix InfoNews Channel. These broadcasts provide our users with exclusive online access to up-to-the-minute, quality news from Phoenix TV. These live broadcasts on our v.ifeng.com vertical provide a convenient alternative means for viewing these popular Phoenix TV programs through an Internet-enabled device.

*Online Video Subscription and Pay-Per-View Services.* Our online video subscription service enables users to watch advertisement-free premium content, such as feature-length documentaries and exclusive online Phoenix TV programming. Our online video pay-per-view service enables users to watch advertisement-free premium videos by purchasing access to particular videos on vip.v.ifeng.com. Like our online subscription videos, our pay-per-view videos also include generally longer videos of up to 20 minutes in length.

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*Mobile Video Subscription and Pay-Per-View Services*

We offer video content through the mobile video platforms of telecom operators, primarily China Mobile and China Telecom. Users pay a monthly subscription fee for access to our video channel on the telecom operators' platforms or pay on a per-clip pay-per-view basis, and we share the fees charged for such services with the telecom operators. Mobile users who access our videos on the telecom operators' platforms either by subscription or on a pay-per-view basis pay a fixed fee, which is generally cheaper than paying for the amount of data downloaded.

*Video Content Sales*

We sublicense video content that we obtain from Phoenix TV to third parties, including third party websites or other Internet or mobile media companies, for various terms as specified in our agreements with these parties.

***Our Mobile Channel***

Our mobile channel consists of our 3g.ifeng.com mobile website, most of our MIVAS and mobile applications. MIVAS paid services in our mobile channel include digital reading services, mobile game services and WVAS. Users can access our mobile content and MIVAS directly from their mobile phones: (i) on our mobile Internet website, 3g.ifeng.com; (ii) from a mobile operator's platform; (iii) by downloading our applications or by opening a pre-installed application on their mobile devices.

We provide and market our MIVAS through cooperation with mobile operators as well as various mobile device manufacturers, Internet sites, technology and media companies. Our MIVAS are tailored to the technical requirements and billing systems of mobile operators, through whom we deliver all of such MIVAS paid services. These operators specially recommend certain of our MIVAS to their subscribers and have featured our brand in their promotions.

*3g.ifeng.com*

Our 3g.ifeng.com website is a modified version of our ifeng.com site reformatted for use on mobile devices and tailored to the preferences of our mobile users. As part of our converged platform, 3g.ifeng.com allows our users to access quality ifeng.com and v.ifeng.com content while they are on-the-go. According to our internal data, our 3g.ifeng.com mobile Internet site received 234.5 million average daily page views in December 2012. Similar to ifeng.com, our 3g.ifeng.com features an array of interest-based and interactive verticals, as well as a mobile video site for watching free mobile VOD.

*MIVAS*

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As part of our converged platform, MIVAS provide a convenient means for our users to access our quality content, for example through our digital reading services, while they are on-the-go. Our MIVAS consist mainly of the following product lines:

### *Digital Reading Services.*

- *Mobile Newspaper Service.* We edit content from our content library to deliver mobile newspapers to mobile users of China Mobile, China Telecom and China Unicom via MMS. Our mobile newspapers provide periodicals in digital form reformatted for convenient viewing on mobile devices. China Mobile's VIP subscribers can receive our mobile newspaper service as part of their subscription and other mobile users can subscribe to this service independently through any one of the three mobile operators.
- *Digital Books Service.* We currently offer books and other publication content to customers of China Mobile through its digital reading platform. We also offer books and other publication content through our digital reading vertical at 3g.ifeng.com and through our digital reading applications.

*Mobile Game Services.* We currently offer approximately 151 mobile social games through China Mobile's, China Unicom's and China Telecom's gaming platforms, which allow users to download our programs using GPRS and 3G technologies.

*WVAS.* We also provide wireless value-added services, or WVAS, as part of our MIVAS offerings through various 2G and 2.5G standard technology platforms. We offer the following WVAS:

- *SMS-based Services.* We offer chat and other community services, television interactive features, such as surveys, as well as quizzes and games.
- *Music Services.* We provide personal ring-back tones, or RBT, services, including a variety of entertaining content, such as pre-recorded messages, movie dialogues and soundtracks, and full-length songs, through the Music Platforms operated by China Mobile, China Telecom and China Unicom.
- *IVR-based Services.* We offer chat services whereby users can chat with each other live over their mobile devices in mobile public chat rooms. Users can also utilize our IVR services to access music, greetings from Chinese celebrities, jokes and story series, or send this content to the mobile phones of their friends or others.
- *WAP-based Services.* We offer picture downloads, community services, games, pop culture, news and finance and personal information management services.

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- *MMS-based Services.* We offer a messaging service that allows multimedia content such as ringtones and pictures to be transmitted in a single message, compared to simple text via SMS.

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We also include net revenues from web-based games in our MIVAS revenues. See Our ifeng.com Channel Web-based Games Platform

*Mobile Applications*

We offer a wide range of mobile applications for different mobile devices, including but not limited to:

- *ifeng Video* (formerly named *Phoenix Mobile Station* ), which provides video news and other video content;
- *ifeng News* (formerly named *Phoenix News* ), which provides news in the form of text and image;
- *ifeng FM*, which provides audio news and other audio content;
- *ifeng Book*, which provides digital format books licensed from third-party publishers;
- *ifeng Weekly* (formerly named *Phoenix Weekly* ), which provides a collection of digital version magazines.

As of December 31, 2012, two of our most popular news applications, *ifeng News* and *ifeng Video* had been downloaded over 25 million times in total.

**Summary of Our Service Offerings**

The following table sets forth our paid service offerings in each of our ifeng.com, video and mobile channels and the percentage contribution of our various paid services to our paid service revenues and revenues in 2012.

Paid Service Offerings(1)	% of Paid Service Revenues	% of Total Revenues
<b>MIVAS</b>	88.9%	40.1%
WVAS, digital reading services, mobile game services and web-based games		

<b>Video VAS</b>	11.1%	5.0%
Online video paid services, mobile video paid services and video content sales		

- (1) With respect to our paid services: (i) Tianying Jiuzhou conducts MIVAS and video VAS and (ii) Yifeng Lianhe conducts MIVAS.

### *Advertising Services*

We provide advertising services primarily through our online and video channels and, to a smaller extent, through 3g.ifeng.com and our mobile applications in our mobile channel. Our advertising team consists of direct sales, agency sales, customer support, advertising design and production, resource management, advertising strategy and sales promotion and other functions. Our sales team is overseen by our vice president of advertising sales.

As is typical in China's online advertising industry, we primarily enter into advertising service contracts through third-party advertising agencies. We mainly charge our advertisers based on the duration of their advertising exposure. Prices for advertisements on our website are fixed under our advertisement contracts, typically at a discount to our listing prices. Although our advertising services are primarily on our ifeng.com and video channels at present, we expect our advertising services on our mobile channel to continue to increase going forward. In addition to advertising services we offer on our ifeng.com, video and mobile channels, we also, together with Phoenix TV, provide bundled new media and TV advertising solutions to certain of Phoenix TV's advertisers.

We strive to provide our advertisers with high-quality customer service. Our experienced sales professionals help advertisers to analyze their target audiences and create innovative campaign strategies and designs. We provide a variety of advertising solutions, including online advertisements, online video advertisements, user activities, live promotions and cross media public relations campaigns. We have an advertising tracking system, which records and maintains the traffic statistics and other data that can be used to measure the effectiveness of advertisements. After the release of a customer's advertising campaign, we furnish them with a report on the campaign's effectiveness either prepared in-house or by an independent research firm.

We have a diverse advertising client base, including both Chinese and international brand advertisers. Our number of advertisers reached 502, 558 and 522 as of December 31, 2010, 2011 and 2012, respectively. Our top ten advertisers accounted for 22.6% of our total advertising revenues in 2012. Our advertisers generally are in the automobile, food & beverages, e-commerce, financial services, medical services, IT products, cosmetic products, luxury brands, airline, health care, education and communication services industries.

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***Our Account Execution Personnel***

We have a dedicated team of account execution personnel who perform a series of review procedures on our advertising material before we display such material on our platform interfaces. This team checks advertisements for form and reviews them to ensure that they do not contain any racial, violent, pornographic or other inappropriate content. This team also verifies that advertisers have provided relevant government approvals if their advertisements are subject to special government requirements.

**Marketing and Promotion**

We employ a variety of traditional and online marketing programs and promotional activities to build our brand as part of our overall marketing strategy. We focus on building brand awareness and growing our user base through proactive public relations and innovative and interactive marketing activities and events, such as our *Chinese Business Leaders Annual Awards Ceremony*. We and Phoenix TV also actively promote one another's brand on our respective Internet and TV platforms as part of our mutual promotion arrangement included in the Phoenix TV Cooperation Agreement.

We believe that our distinguished content and high-quality services lead to strong word-of-mouth promotion, which drives consumer awareness of our brand in China. In addition, our engagement in philanthropic activities, such as our *Annual Forever Happiness Charity Gala Dinner*, helps associate our brand with social responsibility.

**Seasonality**

Seasonal fluctuations and industry cyclicity have affected, and are likely to continue to affect, our business. We generally generate less revenue from brand advertising sales and paid services revenues during national holidays in China, in particular during the Chinese New Year holidays in the first quarter of each year. We typically generate higher net advertising revenues in the fourth quarter due to greater advertising spending by our advertisers near the end of each calendar year when they spend the remaining portions of their annual budgets. In addition, advertising spending in China has historically been cyclical, reflecting overall economic conditions as well as the budgeting and buying patterns of our advertisers. Our rapid growth has lessened the impact of the seasonal fluctuations and cyclicity. However, we expect that the seasonal fluctuations and cyclicity to cause our quarterly and annual operating results to fluctuate. See Item D. Risk Factors Risks Relating to Our Business and Industry Our quarterly revenues and operating results may fluctuate, which makes our results of operations difficult to predict and may cause our quarterly results of operations to fall short of expectations.

**Product Development**

In 2012, we continued to improve our advertising solution products as well as focus on improving our convergence model across PC, mobile and TV in order to provide our users easier access to our premium content through any device. In particular, we continued to introduce and improve our mobile applications and strengthened commercial products in certain of our verticals. For example, we launched database products under our

fashion and finance verticals. We also revamped the home pages for our video vertical and 3g.ifeng.com in 2012. In 2010, 2011 and 2012, our total technology and product development expenses, including related share-based compensation expenses, were RMB31.0 million, RMB69.0 million and RMB91.3 million (US\$14.7 million), respectively.

### **Infrastructure and Technology**

Our technology platform has been designed for reliability, speed, scalability and flexibility and is administered by our in-house technology department. We have access to a network of approximately 2,000 self-owned and leased servers across China mainland, Hong Kong and North America with power supply and power generator backup. We have developed our server operations based on a LAMP structure, a solution stack of free, open source and easily adaptable software, which has allowed us to lower software related investment and enhance our network reliability. We employ a self-developed network management system and a third-party web performance monitoring service to ensure our service quality. We monitor the traffic on our CDN nodes, as well as our network equipment, service equipment and system status. We also monitor traffic levels on our end user service platform in order to regularly improve the quality of our service.

*Content Management Technology.* We have internally developed a leading new media content management system, which fully integrates our ifeng.com, video and mobile channels. The strength of our content management system is evidenced by our cooperation with Dayang Development Technology, Inc. China's largest manufacturer of TV broadcasting technology, which we entered into in August 2010 to sell new media content management solutions for provincial and local TV stations in China.

*Bandwidth Saving Technology.* Our CDN allows us to provide ample bandwidth to our users, thereby enhancing their user experience. Our CDN system is comprised of our self-developed CDN and a commercial CDN, which allows us to ensure bandwidth for users located in remote areas on an efficient and cost-effective basis. We have established approximately 30 CDN nodes across with telecommunication operators.

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*Integration with Phoenix TV.* The integration of our and Phoenix TV's content management systems allows us to directly access Phoenix TV's programs digitally, in addition to our access via satellite signal, and to expedite the transmission of our content to Phoenix TV.

*Data Analysis Technology.* We have greatly enhanced our data analytical system, which collects, tracks and analyzes product usage data, on an anonymous basis, to improve our services. This system possesses flexible mechanics for organizing and analyzing data, and is relatively low cost.

*Cloud Computing.* Our technology department began researching the use of a cloud computing system two years ago to modify our network and system structure and lower our content delivery and system maintenance costs. We have already completed the testing of our distributed file system, which will provide file access services to our content management system, and is anticipated to become a streaming media service and core storage system for each of our CDN nodes. We have also commenced our distributed computing platform project, which is expected to provide large-scale computer capacity support for our raw access log and transcoding computing-intensive applications.

## **Competition**

We operate in the market of Internet and mobile Internet content and services in China. The industry is highly competitive and rapidly changing due to the fast growing market and technological developments. Our ability to compete successfully depends on many factors, including the quality and relevance of our content, the demographic composition of our users, brand recognition and reputation, user experience, the robustness of our technology platform, our ability to provide innovative advertising services to our customers and our relationships with our advertisers.

While we believe that our integrated platform business model and targeted user base is unique, on the whole, from other companies in China, we compete with other content and service providers in each of our individual channels for user traffic, advertising revenue and fee-based services. In online content and service provision, we compete primarily with NetEase.com, Inc., Sina Corporation, Sohu.com Inc. and Tencent Technology Limited (QQ.com). In video, we compete with a number of online video companies, including Youku Tudou Inc., iqiyi.com, Sohu video, QQ video, PPlive.com, PPS.com and China Network Television, or CNTV. In mobile Internet, we primarily compete against 3G Menhu, A8.com, and Kong Zhong Corporation, as well as the mobile businesses of the large Chinese Internet companies Sina Corporation and Tencent Technology Limited (3G.QQ.com). For overseas Chinese users, we compete with Wenxuecity.com and Duowei News in the United States and Yahoo!Qimo in Taiwan.

We also compete with traditional advertising media, such as television, radio, print media, as well as billboards and other forms of outdoor media. Large companies currently spend a relatively small portion of their advertising budgets on new media advertising as compared to traditional media advertising, but we expect their proportionate spending on new media advertising relative to traditional media advertising to increase in the future.

## **Intellectual Property**

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We rely on a combination of trademark, copyright and trade secret protection laws in China and other jurisdictions, as well as confidentiality procedures and contractual provisions to protect our intellectual property and our brand. We also enter into confidentiality, non-compete and invention assignment agreements with our employees and consultants and nondisclosure agreements with selected third parties. We had 35 PRC software registrations and owned four domain names, including ifeng.com, as of March 31, 2013.

Tianying Jiuzhou currently owns 19 PRC registered trademarks, five of which were transferred from Phoenix Satellite Trademark Limited. We have also designed proprietary logos for use in the respective businesses of Tianying Jiuzhou and Yifeng Lianhe. As of March 31, 2013, Tianying Jiuzhou had submitted 97 registration applications relating to 10 logo designs, and Yifeng Lianhe had submitted 20 registration applications relating to three logo designs, to the PRC Trademark Office. Yifeng Lianhe does not currently have any registered trademarks and both of our affiliated consolidated entities continue to use certain of Phoenix TV's logos that are licensed from Phoenix Satellite Television Trademark Limited. Therefore we are currently not in compliance with a notice of the MIIT which requires ICP License-holders to own the trademarks used in their value-added telecommunications businesses. For information about the risks related to our use of licensed trademarks and our plans to remedy such risks, see Item 3. Key Information D. Risk Factors Risks Relating to Our Business and Industry Our consolidated affiliated entities and their respective shareholders do not own the trademarks used in their value-added telecommunications services, which may subject them to revocation of their licenses or other penalties or sanctions.

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**Employees**

We had approximately 836, 1,285 and 1,478 employees as of December 31, 2010, 2011 and 2012, respectively. Our number of employees has grown significantly to accommodate the growth of our business. The table below sets forth the number of employees categorized by function as of December 31, 2012:

<b>Function</b>	<b>Number of Employees</b>
Management and administration	139
Content development	503
Mobile products and services	148
Technology and product development	243
Sales and marketing	445
<b>Total</b>	<b>1,478</b>

As of December 31, 2012, we had 1,297, 51 and 56 employees located in Beijing, Shanghai and Guangzhou, respectively, and 74 employees located in other locations in China. Currently we do not have any employees located outside of China.

Since our inception, we have not experienced any strikes or other disruptions of employment. We believe our relationships with our employees are good.

The remuneration package of our employees includes salary, bonus, equity-based compensation and other cash benefits. In accordance with applicable regulations in China, we participate in a pension contribution plan, a medical insurance plan, an unemployment insurance plan, a personal injury insurance plan, maternity insurance and a housing reserve fund for the benefit of all of our employees.

**Legal and Administrative Proceedings**

We are currently not a party to any material legal or administrative proceedings and are not aware of any pending or threatened material legal or administrative proceedings against us. We may from time to time become a party to various legal or administrative proceedings arising in the ordinary course of our business.

**Facilities**

Our executive office is located at Sinolight Plaza, Floor 16, No. 4 Qiyang Road, Wangjing, Chaoyang District, Beijing 100102, People's Republic of China. We maintain a number of offices in Beijing, Shanghai and Guangzhou under leases with terms ranging from one to five

years.

The following table describes each of our major offices as of December 31, 2012:

Location	Space (in square meters)	Usage of Property	Expiration Dates
Beijing	14,999	Office	June 30, 2017
Beijing	2,410	Office	October 14, 2016
Beijing	2,243	Office	November 24, 2013
Beijing	1,080	Office	March 29, 2014
Guangzhou	552	Office	October 14, 2014
Shanghai	500	Office	May 31, 2014

We believe that our leased facilities are adequate to meet our needs for the foreseeable future, and that we will be able to obtain adequate facilities, principally through leasing of additional properties, to accommodate our future expansions.

### Regulatory Matters

The following is a summary of the most significant PRC laws and regulations that affect our business activities in China or our shareholders rights to receive dividends and other distributions from us.

#### *Regulation of Telecommunications and Internet Information Services*

The telecommunications industry, including the Internet sector, is highly regulated in the PRC. Regulations issued or implemented by the State Council, the Ministry of Industry and Information Technology, or MIIT (formerly the Ministry of Information Industry, or MII), and other relevant government authorities cover many aspects of operation of telecommunications and Internet information services, including entry into the telecommunications industry, the scope of permissible business activities, licenses and permits for various business activities and foreign investment.

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The principal regulations governing the telecommunications and Internet information services we provide in the PRC include:

*Telecommunications Regulations (2000)*, or the Telecom Regulations. The Telecom Regulations categorize all telecommunications businesses in the PRC as either basic or value-added. Value-added telecommunications services are defined as telecommunications and information services provided through public network infrastructures. The currently effective Catalog of Telecommunications Business, an attachment to the Telecom Regulations, categorizes various types of telecommunications and telecommunications-related activities into basic or value-added telecommunications services, according to which, Internet information services, or ICP services, are classified as value-added telecommunications businesses. Under the Telecom Regulations, commercial operators of value-added telecommunications services must first obtain an operating license for value-added telecommunications services, or the ICP License, from MIIT or its provincial level counterparts.

*Administrative Measures on Internet Information Services (2000)*, or the Internet Measures. According to the Internet Measures, a commercial ICP service operator must obtain an ICP License from MIIT or its provincial level counterparts before engaging in any commercial ICP service in PRC. When the ICP service involves areas of news, publication, education, medicine, health, pharmaceuticals, medical equipment and other industry and, if required by relevant laws and regulations, prior approval from the respective regulatory authorities must be obtained prior to applying for the ICP License. Moreover, an ICP service operator must display its ICP License number in a conspicuous location on its website.

*Administrative Measures for Telecommunications Business Operating License (2009, revised)*, or the Telecom License Measures. Pursuant to the Telecom License Measures, an ICP service operator conducting business within a single province must apply for the ICP License from MIIT's applicable provincial level counterpart, while that providing ICP services across provinces must apply for Trans-regional ICP License directly from MIIT. The appendix to the ICP License should detail the permitted activities to be conducted by the ICP service operator. An ICP service operator that has been granted a Trans-regional ICP License is required to file a record with the local branch of MIIT at the provincial level prior to conducting any value-added telecommunications business in such province. An approved ICP service operator must conduct its business in accordance with the specifications recorded on its ICP License. The ICP License is subject to annual review and the annual review result will be recorded as an appendix to the ICP License, published to the public and notified to the applicable administrative authority for industry and commerce.

*Regulations for Administration of Foreign-Invested Telecommunications Enterprises (2008, revised)*, or the FITE Regulations. Under the FITE Regulations, a foreign entity is prohibited from owning more than 50% of the total equity interest in any value-added telecommunications service business in the PRC and the major foreign investor in any value-added telecommunications service business in the PRC shall have a good track record in such industry.

*Notice on Strengthening the Administration of Foreign Investment in Value-added Telecommunications Services (2006)*, or the MIIT 2006 Notice. Under the MIIT 2006 Notice, a domestic PRC company that holds an ICP License is prohibited from leasing, transferring or selling the ICP License to foreign investors in any form, and from providing any assistance, including providing resources, sites or facilities, to foreign investors that conduct value-added telecommunications business illegally in the PRC. Further, the domain names and registered trademarks used by an operating company providing value-added telecommunications service must be legally owned by such company and/or its shareholders. In addition, such company's operation premises and equipment should comply with its approved ICP License, and such company should establish and improve its internal Internet and information security policies and standards and emergency management procedures. After the promulgation of the MIIT 2006 Notice in July 2006, the MIIT issued a subsequent notice in October 2006, or the MIIT October Notice, urging value-added telecommunication service operators to conduct self-examination regarding any noncompliance with the MIIT 2006 Notice prior to November 1, 2006. Pursuant to the MIIT October Notice, ICP License-holders who were not in compliance with the MIIT 2006 Notice were allowed to submit a self-correction report to the local provincial-level branch of MIIT by November 20, 2006.

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Tianying Jiuzhou currently owns 19 PRC registered trademarks five of which were transferred to it from Phoenix Satellite Trademark Limited. We have also designed proprietary logos for use in the respective businesses of Tianying Jiuzhou and Yifeng Lianhe. As of March 31, 2013, Tianying Jiuzhou had submitted 97 registration applications relating to ten logo designs, and Yifeng Lianhe had submitted 20 registration applications relating to three logo designs, to the PRC Trademark Office. Yifeng Lianhe does not currently have any registered trademarks, and both of our affiliated consolidated entities continue to use certain of Phoenix TV's logos that are licensed from Phoenix Satellite Television Trademark Limited. Therefore we are currently not in compliance with the MIIT 2006 Notice.

We expect the process of registering all the trademarks for which we have submitted applications to the PRC Trademark Office to be completed in approximately two years. In addition, we will continue to examine the possibility of the transferring to our affiliated consolidated entities all or part of the ownership of additional licensed logos currently used by them in a manner that would meet the requirements of PRC trademark regulations in due course in the future. For information about the risks related to our use of licensed trademarks, see Item 3. Key Information D. Risk Factors Risks Relating to Our Business and Industry Our consolidated affiliated entities and their respective shareholders do not own the trademarks used in their value-added telecommunications services, which may subject them to revocation of their licenses or other penalties or sanctions.

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*Tentative Measures for the Administration of Commercial Website Filings for Record* and their implementing rules (2000). Under these rules, commercial websites must file with the relevant administration of industry and commerce to obtain electronic registration marks and place the registration marks on the homepages.

In order to comply with these PRC laws and regulations, we operate our commercial website through Tianying Jiuzhou, one of our PRC consolidated affiliated entities. Tianying Jiuzhou holds an ICP License and owns the material domain names for our value-added telecommunications business. In addition, Tianying Jiuzhou completed the necessary filing with the relevant Administration of Industry and Commerce to obtain the electronic registration mark for our website and has placed the registration mark on the website homepage. Tianying Jiuzhou has completed all necessary registrations and approvals for its use of such material domain names.

Under various laws and regulations governing ICP services, ICP services operators are required to monitor their websites. They may not produce, duplicate, post or disseminate any content that falls within the prohibited categories and must remove any such content from their websites, including any content that:

- opposes the fundamental principles determined in the PRC's Constitution;
- compromises state security, divulges state secrets, subverts state power or damages national unity;
- harms the dignity or interests of the State;
- incites ethnic hatred or racial discrimination or damages inter-ethnic unity;
- sabotages the PRC's religious policy or propagates heretical teachings or feudal superstitions;
- disseminates rumors, disturbs social order or disrupts social stability;
- propagates obscenity, pornography, gambling, violence, murder or fear or incites the commission of crimes;
- insults or slanders a third party or infringes upon the lawful rights and interests of a third party; or

- includes other content prohibited by laws or administrative regulations.

The PRC government may shut down the websites of ICP License holders that violate any of the above restrictions and requirements, revoke their ICP Licenses or impose other penalties pursuant to applicable law.

In order to comply with these PRC laws and regulations, we have adopted internal procedures to monitor content displayed on our website. However, because the definition and interpretation of prohibited content is in many cases vague and subjective, it is not always possible to determine or predict what content might be prohibited under existing restrictions or restrictions that might be imposed in the future and we may be subject to penalties for such content. See Item 3. Key Information D. Risk Factors Risks Relating to Our Business and Industry The Chinese government may prevent us from advertising or distributing content that it believes is inappropriate and we may be subject to penalties for such content or we may have to interrupt or stop the operation of our website.

*Several Measures on the Administration of the Development of Micro-blog in Beijing* (2011). On December 16, 2011, the Beijing Municipal News Office, together with the Beijing Municipal Public Security Bureau, the Beijing Municipal Communications Administration and the Beijing Municipal Internet Information Office, jointly issued the *Several Measures on the Administration of the Development of Micro-blog in Beijing*, or the Micro-blog Measures, which took effect on the same date. The Micro-blog Measures stipulate that all micro-blogs operators in Beijing must require their users to register with their real names and that all micro-blog operators must complete procedures required by the Internet information content regulatory authority of Beijing for the operation of micro-blog services within three months after the effective date of the Micro-blog Measures. In order to comply with the Micro-blog Measures, we have added clauses into the agreements between the users of our micro-blog service and us requesting our micro-blog users to register using their real names. However, as the Micro-blog Measures are newly promulgated, we currently do not know how our micro-blog business will be affected by the application of the Micro-blog Measures. See Item 3: Key Information D. Risk Factors Risks Relating to Our Business We may be adversely affected by the complexity, uncertainties and changes in PRC regulation of Internet businesses and companies, including limitations on our ability to own key assets, such as our website.

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

On July 6, 2004, SARFT promulgated the *Measures for the Administration of Publication of Audio-Visual Programs through the Internet or Other Information Networks*, or the 2004 Internet A/V Measures, which apply to activities relating to the opening, broadcasting, integration, transmission or download of audio-visual programs via the Internet or other information networks. An applicant who engages in the business of transmitting audio-visual programs must obtain a license from GAPPRFT in accordance with its category of business, including receiving terminals, transmission networks and other items. Foreign-invested enterprises are not allowed to engage in the above business. Pursuant to the *Certain Decisions on the Entry of the Non-State-owned Capital into the Cultural Industry*, and the *Several Opinions on Canvassing Foreign Investment into the Cultural Sector* promulgated in 2005 non-State-owned capital and foreign investors are not allowed to conduct the business of transmitting audio-visual programs via an information network.

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On December 20, 2007, SARFT and MII jointly promulgated the *Administrative Provisions on Internet Audio-visual Program Service*, or the Audio-visual Program Provisions, which came into effect on January 31, 2008. The Audio-Visual Program Provisions apply to the provision of audio-visual program services to the public via the Internet (including mobile network) in China. Providers of Internet audio-visual program services are required to obtain a License for Online Transmission of Audio-Visual Programs issued by GAPPRFT or complete certain registration procedures with GAPPRFT. Providers of Internet audio-visual program services are generally required to be either State-owned or State-controlled by the PRC government, and the business to be carried out by such providers must satisfy the overall planning and guidance catalog for Internet audio-visual program service determined by GAPPRFT. In a press conference jointly held by SARFT and MII to answer questions with respect to the Audio-Visual Program Provisions in February 2008, SARFT and MII clarified that providers of Internet audio-visual program services who engaged in such services prior to the promulgation of the Audio-Visual Program Provisions are eligible to register their business and continue their operation of Internet audio-visual program services so long as such providers have not been in violation of laws and regulations.

On May 21, 2008, SARFT issued a *Notice on Relevant Issues Concerning Application and Approval of Licenses for Online Transmission of Audio-Visual Programs*, which sets forth detailed provisions concerning the application and approval process for the License for Online Transmission of Audio-Visual Programs. The notice also states that providers of Internet audio-visual program services who engaged in such services prior to the promulgation of the Audio-Visual Program Provisions are eligible to apply for the license as long as their violation of the laws and regulations is minor and can be rectified in a timely manner and they have no records of violation during the three months prior to the promulgation of the Audio-Visual Program Provisions.

On December 28, 2007, SARFT issued the *Notice on Strengthening the Administration of TV Dramas and Films Transmitted via the Internet*, or the *Notice on Dramas and Films*. According to this notice, if audio-visual programs published to the public through an information network fall under the film and drama category, the requirements of the Permit for Issuance of TV Dramas, Permit for Public Projection of Films, Permit for Issuance of Cartoons or academic literature movies and Permit for Public Projection of Academic Literature Movies and TV Plays will apply accordingly. In addition, providers of such services should obtain prior consents from copyright owners of all such audio-visual programs.

Further, on March 31, 2009, SARFT issued the *Notice on Strengthening the Administration of the Content of Internet Audiovisual Programs*, or the *Notice on Content of A/V Programs*, which reiterates the requirement of obtaining the relevant permit for publishing audio-visual programs to the public through an information network, and prohibits certain types of Internet audio-visual programs from containing violence, pornography, gambling, terrorism, superstitious or other hazardous contents.

On April 1, 2010, SARFT issued the *Internet Audio-visual Program Services Categories (Provisional)*, or the Provisional Categories, which classifies Internet audio-visual programs into four categories.

In order to comply with these laws and regulations, Tianying Jiuzhou submitted an application to GAPPRFT for the License for the Online Transmission of Audio-Visual Programs. However, we have not been granted such license as to the date of this annual report and cannot assure you that we may be able to obtain one. See Item 3. Key Information D. Risk Factors Risks Relating to Our Business and Industry Our lack of an Internet audio-visual program transmission license may expose us to administrative sanctions, including the banning of our video VAS, non-paid video services and video advertising services, which could materially and adversely affect our business and results of operation.

***Regulation of Foreign Television Programs and Satellite Channels***

Broadcast of foreign television programs is strictly regulated by GAPPRFT. On August 11, 1997, the State Council promulgated the *Administrative Regulations on Television and Radio*, under which any foreign television drama or other foreign television program to be broadcast by television or radio stations is subject to the prior inspection and approval by GAPPRFT or its authorized entities. On June 18, 2004, SARFT promulgated the *Administrative Measures on the Landing of Foreign Satellite Television Channels*, pursuant to which foreign satellite televisions channels can only be broadcast in three-star (or above) hotels for foreigners or departments exclusively for the residence of foreigners or other specific areas, and prior broadcasting approval for such limited landing must be obtained from GAPPRFT.

In addition, on September 23, 2004, SARFT promulgated the *Administrative Regulations on the Introduction and Broadcasting of Foreign Television Programs*, pursuant to which only organizations designated by GAPPRFT are qualified to apply to GAPPRFT or its authorized entities for introduction or broadcasting of foreign television dramas or foreign television programs. Approval of such application is subject to the general plan of GAPPRFT and the contents of such foreign television dramas or programs may not in any way threaten the national security or violate any laws or regulations.

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The 2004 Internet A/V Measures explicitly prohibit Internet service providers from broadcasting any foreign television or radio program over an information network and state that any violation may result in warnings, monetary penalties or, in severe cases, criminal liabilities. On November 19, 2009, SARFT issued a notice to extend the prohibition to broadcasting foreign television programs via mobile phones. However, pursuant to several notices issued by SARFT, such as the *Notice on Dramas and Films* and the *Notice on Content of A/V Programs* referenced above under Regulation of Online Transmission of Audio-visual Programs, foreign audio-visual programs may be published to the public through the Internet, provided that such foreign audio-visual programs comply with the regulations on administration of radios, films and television, and that the relevant permits required by PRC laws and regulations, such as the Permit for Issuance of TV Dramas, Permit for Public Projection of Films, Permit for Issuance of Cartoons or academic literature movies and Permit for Public Projection of Academic Literature Movies and TV Plays, have been obtained for such foreign audio-visual programs. The promulgation of the *Notice on Dramas and Films* and the *Notice on Content of A/V Programs* implies that the absolute restriction against broadcasting foreign television or radio programs on the Internet as set forth in the 2004 Internet A/V Measures has been lifted.

A substantial portion of the audio-visual programs and content on our website are closely linked to or are online versions of the TV content of Phoenix TV and we currently do not have any approval from GAPPRFT for introducing and broadcasting foreign television programs into China and cannot assure you that we may be able to obtain such approval if required to do so. See Item 3. Key Information D. Risk Factors Risks Relating to Our Business and Industry Failure to obtain GAPPRFT's approval for introducing and broadcasting foreign television programs could have a material adverse effect on our ability to conduct our business.

***Regulation of the Production of Radio and Television Programs***

On July 19, 2004, SARFT promulgated the *Regulations on the Administration of Production of Radio and Television Programs*, or the Radio and TV Programs Regulations, which came into effect as of August 20, 2004. Under the Radio and TV Programs Regulations, any entities that engage in the production of radio and television programs are required to apply for a license from GAPPRFT or its provincial branches. Entities with the Permit for Production and Operation of Radio and TV Programs must conduct their business operations in strict compliance with the approved scope of production and operation. Furthermore, entities other than radio and TV stations are strictly prohibited from producing radio and TV programs covering contemporary political news or similar subjects and columns.

Tianying Jiuzhou has been granted a Permit for Production and Operation of Radio and TV Programs, with a permitted scope including the production of animations, featured shows and entertainment programs.

***Regulation of Online Cultural Activities, Online Games and Internet Music***

The MOC promulgated the new *Provisional Measures on Administration of Internet Culture* on February 17, 2011, or the Internet Culture Measures, which became effective as of April 1, 2011 and the *Notice on Issues Relating to Implementing the Newly Amended Provisional Measures on Administration of Internet Culture* on March 18, 2011, replacing the relevant regulations promulgated in 2003. The Internet Culture Measures apply to entities that engage in activities related to online cultural products. Online cultural products are classified as cultural products produced, disseminated and circulated via the Internet that include: (i) online cultural products specifically produced for the Internet, such as online music entertainment, network games, network performance programs, online performing arts, online artworks and online animation features and cartoons; and (ii) online cultural products that are converted from music entertainment, games, performance programs, performing arts, artworks and animation features and cartoons and disseminated via the Internet. Pursuant to the Internet Culture Measures, an entity that intends to commercially engage in any of the following types of activities are required to obtain an Online Culture Operating Permit from the

applicable provincial level culture administrative authority:

- the production, duplication, import, distribution or broadcasting of online cultural products;
- the publication of online cultural products on the Internet or transmission of online cultural products via an information network, such as the Internet and mobile networks, to a computer, fixed-line or mobile phones, television sets or gaming consoles for the purpose of browsing, reviewing, using or downloading such products by online users; or
- exhibitions or contests related to online cultural products.

The *Administration Rules of Publication of Electronic Publication Rules*, or the Electronic Publication Rules, regulate the production, publishing and importation of electronic publication in the PRC and outline a licensing system for business operations involving electronic publishing. Under the Electronic Publication Rules and other regulations issued by GAPP, online games are classified as a type of electronic production and publishing of online games is required to be done by licensed electronic publishing entities with standard publication codes. If a PRC company is contractually authorized to publish foreign electronic publications, it must obtain the approval of, and register the copyright license contract with, GAPPRFT.

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Pursuant to the Tentative Measures on Internet Publication, or the Internet Publication Measures, jointly promulgated by MII and GAPP and effective on August 1, 2002, Internet publishers must secure approval, or the Internet Publication license, from GAPP to conduct Internet publication activities, including operating of online games.

On September 28, 2009, GAPP and the National Office of Combating Pornography and Illegal Publications jointly published a circular prohibiting foreign investors from investing and engaging in the operation of online games services by any forms of wholly foreign-owned enterprise, Sino-foreign joint-venture or cooperation. Under this notice, foreign investors cannot control and participate in the operation of online games services provided by domestic companies in any indirect forms, such as incorporating other joint-ventures, signing relevant agreements, or providing technical supports. This circular further states that all the online games must be screened by GAPPRFT through advanced approvals before they are operated online, and any updated online game versions or any change to the online games are subject to further approvals before they can be operated online.

On June 4, 2009, the MOC and MOFCOM jointly issued the *Notice on Strengthening the Administration of Online Game Virtual Currency*, or the Virtual Currency Notice, to regulate the trading of online game virtual currencies. The Virtual Currency Notice defines the meaning of virtual currency and places a set of restrictions on the trading and issuance of virtual currency. The Virtual Currency Notice also reiterates that virtual currency can only be provided to users in exchange for an RMB payment and can only be used to pay for virtual goods and services of the issuers. In addition, the Virtual Currency Notice states that online game operators are not allowed to give out virtual items or virtual currency through lottery-base activities, such as lucky draws, betting or random computer sampling, etc., in exchange for user's cash or virtual money. We provide extra free virtual currencies to game users as they buy virtual currencies from us. For more information regarding regulatory risks related to our online games business, see Item 3. Key Information D. Risk Factors Risks Relating to Our Business and Industry. If we fail to obtain or maintain all applicable permits and approvals, or fail to comply with PRC regulations, relating to online games, our ability to conduct our online game business and certain other businesses could be affected and we could be subject to penalties and other administrative sanctions.

On June 3, 2010, the MOC issued the *Provisional Regulations for the Administration of Online Games*, which applies to business activities relating to online game development and operation and virtual currencies issuance and trading. Pursuant to this regulation, business entities are required to obtain an Online Culture Operating Permit prior to commencing their online game operation. Game operators must file separate applications for virtual currencies issuance and trading. Regarding virtual currencies trading, game operators can only issue virtual currencies in exchange of service they provide themselves rather than trading for service or products of the third parties. Game operators cannot appropriate advance payments from players. Game operators are not allowed to provide trading service of virtual currencies to minors. Records of all transactions in the accounts shall be kept for minimum 180 days.

On November 20, 2006, the MOC issued *Several Suggestions on the Development and Administration of the Internet Music*, or the Suggestions, which became effective on November 20, 2006. The Suggestions, among other things, reiterate the requirement for Internet service providers to obtain an Online Culture Operating Permit to operate any business involving Internet music products. In addition, foreign investors are prohibited from operating Internet culture businesses. However, the laws and regulations on Internet music products are still evolving, and there have not been any provisions stipulating whether or how music videos will be regulated by the Suggestions.

On August 18, 2009, the MOC issued the *Notice on Strengthening and Improving the Content Review of Online Music*. According to this notice, only Internet culture operating entities approved by the MOC may engage in the production, release, dissemination (including providing direct links to music products) and importation of online music products. Online music content shall be reviewed by or filed with the MOC. Internet culture operating entities should establish a strict system for self-monitoring online music content and set up a special department in charge of such monitoring.

Both Tianying Jiuzhou and Yifeng Lianhe are currently operating online games businesses. Tianying Jiuzhou also provides Internet music products on our website. As of the date of this annual report, Tianying Jiuzhou has been granted the Online Culture Operating Permit with a permitted scope including the operation of online music, art and entertainment products, online game products (including virtual currencies for online games), art products, play performance, animation products and organization of exhibition or race of the online cultural products. Tianying Jiuzhou has also obtained an Internet Publication License from GAPPRT with respect to books and periodicals published on the Internet, including the mobile Internet, and online and mobile games. Yifeng Lianhe, which generates a small amount of our online game service revenues, is in the process of applying for an Internet Publication License. For more information regarding regulatory risks of our online games business, see Item 3. Key Information D. Risk Factors Risks Relating to Our Business and Industry. If we fail to obtain or maintain all applicable permits and approvals, or fail to comply with PRC regulations, relating to online games, our ability to conduct our online game business and certain other businesses could be affected and we could be subject to penalties and other administrative sanctions.

In addition, to comply with the laws and regulations on the content requirements of Internet music products, our content examination team reviews the content of online music products provided on our website.

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***Regulation of Internet News Dissemination***

Pursuant to the *Provisional Regulations for the Administration of Internet Websites Engaging in News Publication Services* and the *Provisions for the Administration of Internet News Information Services*, each promulgated by the State Council Information Office, or the SCIO, and MII, which became effective as of November 7, 2000 and September 25, 2005, respectively, websites established by non-news organizations may publish news released by certain official news agencies but may not publish news generated by themselves or news sourced elsewhere. In order to disseminate news, such websites must satisfy the relevant requirements set forth in the applicable regulations and have acquired approval from SCIO after securing permission from the news office of the provincial-level government. In addition, websites intending to publish news released by the aforementioned news agencies must enter into agreements with the respective organizations, and file copies of such agreements with the news office of the provincial-level government.

In order to comply with these laws and regulations, we submitted an application to SCIO for the Internet news license. However, we have not been granted such license as of the date of this annual report and cannot assure you that we may be able to obtain one. See Item 3. Key Information D. Risk Factors Risks Relating to Our Business and Industry Our lack of an Internet news license may expose us to administrative sanctions, including an order to cease our Internet information services that provide political news or to cease the Internet access services provided by third parties to us. In 2012, 56.8% of our total revenues were derived from Internet information services and services that relied on Internet access services from third parties.

***Regulation of Internet Publication***

GAPPRFT is the government agency regulating publishing activities in the PRC. On June 27, 2002, MII and GAPP jointly promulgated the *Tentative Administration Measures on Internet Publication*, or the Internet Publication Measures, which took effect on August 1, 2002. The Internet Publication Measures require Internet publishers to secure approval, or the Internet Publication License, from GAPPRFT to conduct Internet publication activities. The term Internet publication is defined as an act of online dissemination where Internet information service providers select, edit and process works created by themselves or others (including content from books, newspapers, periodicals, audio and video products, electronic publications, and other sources that have already been formally published or works that have been made public in other media) which they then post on the Internet or transmit via the Internet for browsing, use or downloading by the public. The Internet Publication Measures also provide the detailed qualifications and application procedures for obtaining an Internet Publication License.

User generated content, the programs we select, produce and/or edit for users browsing, reading or downloading or our online games may be deemed a kind of Internet publication and the relevant authority could require us to obtain an Internet Publication License. Tianying Jiuzhou has obtained an Internet Publication License from GAPPRFT, however, Yifeng Lianhe is in the process of applying for this license. See Item 3. Key Information D. Risk Factors Risks Relating to Our Business and Industry If we fail to obtain or maintain all applicable permits and approvals, or fail to comply with PRC regulations, relating to online games, our ability to conduct our online game business and certain other businesses could be affected and we could be subject to penalties and other administrative sanctions.

***Regulation of Internet Bulletin Board Services***

MII promulgated the *Administrative Measures on Internet Bulletin Board Services*, or the BBS Measures, on November 6, 2000. The BBS Measures require that ICP service operators providing bulletin boards, discussion forums, chat rooms or similar services, or BBS services, apply for, and obtain specific approval from the telecommunications authorities, if they are commercial ICP service operators, or to make specific filing with the telecommunications authorities if they are noncommercial ICP service operators. Moreover, ICP service operators must display in a conspicuous location on their BBS sites their ICP License numbers, rules of BBS and the possible legal liabilities for improper comments.

Tianying Jiuzhou has obtained the approval from the Beijing Branch of MII for operation of BBS services.

***Regulation of Short Message Services***

MII issued the *Notice on Certain Issues Regarding Standardizing Short Message Services* on April 15, 2004, specifying that only those information service providers holding the relevant license can provide short message services in the PRC. Such notice also specifies that information service providers shall examine the contents of short messages and automatically record and keep for five months the time of sending and receiving the short messages, the mobile numbers or codes of the sending terminal and receiving terminal of the short messages.

In order to comply with these laws and regulations, Tianying Jiuzhou and Yifeng Lianhe have obtained ICP licenses for provision of information via mobile networks. In addition, we have certain personnel to examine and screen on contents of short messages and keep the relevant records as required by the law.

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***Regulation of Telecommunications Networks Code Number Resources***

On January 29, 2003, MII issued the *Administrative Measures on Telecommunications Networks Code Number Resources*, or the Code Number Measures, to regulate code numbers, including those of mobile communications networks. According to such administrative measures, entities which apply for code numbers to be used in a trans-provincial range shall apply to MIIT, and entities which apply for code numbers to be used within provincial-level administrative regions shall apply to MIIT at the provincial level. Such administrative measures also specify the qualification requirements for code number applicants, required application materials and the application procedures.

In June 2006, MII issued the *Administrative Measures on Application, Distribution, Usage and Withdrawal of SMS Services Access Codes*. According to such administrative measures, the administration and usage of services relating to SMS short codes shall comply with the Code Number Measures. Such administrative measures also specify that operators who provide services relating to SMS short codes across provinces or in the territory of the whole country shall file with the relevant provincial-level counterparts of MII.

Each of Tianying Jiuzhou and Yifeng Lianhe has been granted the code numbers to be used in a trans-provincial range and has completed the filing in most of the provinces, except (i) with respect to Tianying Jiuzhou, in Gansu and (ii) with respect to Yifeng Lianhe, in Sichuan, Shanxi, Guizhou, Gansu and Ningxia. See Item 3. Key Information D. Risk Factors Risks Relating to Our Business and Industry Failure to fully comply with PRC regulations regarding value-added telecommunications services may subject us to fines and other legal or administrative sanctions.

***Regulation of Certain Internet Content***

*Internet Medicine Information*

The *Administration Measures on Internet Medicine Information Service* issued by The State Food and Drug Administration, or the SFDA, and related implementing rules and notices govern the classification, application, approval, contents, qualifications and requirements for Internet medicine information services. An ICP service operator that provides information regarding medicine or medical equipment must obtain an Internet Medicine Information Service Qualification Certificate from the applicable provincial level counterpart of SFDA.

*Internet Medical Care Information*

The PRC Ministry of Health promulgated the *Administrative Measures on Internet Medical Care Information Services* on May 1, 2009. Pursuant to these measures, an ICP service operator that provides information regarding medical care must obtain an Internet Medical Care Information Consent Letter from the applicable health department at the provincial level. The effective period of such consent letters is two years.

Certain of our verticals contain medicine-related and medical care information. We currently do not have such consent letter or qualification certificate, but have engaged an agency to assist us in applying for such certificate and consent letter. We cannot assure you that we may be able to obtain them. See Item 3. Key Information D. Risk Factors Risks Relating to Our Business and Industry Failure to obtain certain permits for our health and Chinese medicine verticals would subject us to penalties.

### ***Regulation of Internet Privacy***

The PRC Constitution states that PRC law protects the freedom and privacy of communications of citizens and prohibits the infringement of such rights. In recent years, PRC government authorities have passed regulations on Internet use to protect personal information from unauthorized disclosure. The Internet Measures prohibit an ICP service operator from insulting or slandering a third party or infringing upon the lawful rights and interests of a third party. Pursuant to the BBS Measures, ICP service operators that provide electronic messaging services must keep users' personal information confidential and must not disclose such personal information to any third party without the users' consent, unless required by law. The regulations further authorize the relevant telecommunications authorities to order ICP service operators to rectify unauthorized disclosures. ICP service operators are subject to legal liability if unauthorized disclosure results in damages or losses to users. The PRC government, however, has the power and authority to order ICP service operators to turn over personal information if an Internet user posts any prohibited content or engages in illegal activities on the Internet. Pursuant to the *Information Protection Decision* issued by the Standing Committee of the National People's Congress of the PRC, any organization or person is prohibited from selling or illegally providing individual citizens' electronic information to others. The Information Protection Decision further states that Internet service providers and other enterprises and institutions must keep users' personal information that is gathered in the course of their business activities confidential and any violations of the regulations may subject such companies to penalties such as warnings, fines, confiscation of its unlawful income, revocation of licenses or shutdown of their websites.

Our platform is open to Internet users for uploading text and images. As a result, content posted by our users may expose us to allegations by third parties of invasion of privacy. Though our users agree not to use our services in a way that is illegal, given the volume of content uploaded, it is not possible to identify and remove all potentially infringing content uploaded by our users and we may therefore be subject to litigations or claims in connection with invasion of user privacy.

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***Regulation of Advertising Business***

The State Administration for Industry and Commerce, or SAIC, is the government agency responsible for regulating advertising activities in the PRC.

According to PRC Advertisement Law and relevant rules and regulations, companies that engage in advertising activities must obtain from SAIC or its local branches a business license which specifically includes advertising within its business scope. PRC advertising laws and regulations set forth certain content requirements for advertisements in the PRC including, among other things, prohibitions on false or misleading content, superlative wording, socially destabilizing content or content involving obscenities, superstition, violence, discrimination or infringement of the public interest. Advertisers, advertising agencies, and advertising distributors are required to ensure that the content of the advertisements they prepare or distribute is true and in full compliance with applicable law. In providing advertising services, advertising operators and advertising distributors must review the supporting documents provided by advertisers for their advertisements and verify that the content of the advertisements complies with applicable PRC laws and regulations. Prior to distributing advertisements that are subject to government censorship and approval, advertising distributors are obligated to verify that such censorship has been performed and approval has been obtained. Violation of these regulations may result in penalties, including fines, confiscation of advertising income, orders to cease dissemination of the advertisements and orders to publish corrections of the misleading information. In circumstances involving serious violations, SAIC or its local branches may revoke violators' licenses or permits for their advertising business operations.

In order to comply with these laws and regulations, our advertising contracts require that all advertising agencies or advertisers that contract with us must examine the advertising content provided to us to ensure that such content are truthful, accurate and in full compliance with PRC laws and regulations. In addition, we have established a task force to review all advertising materials to ensure the content does not violate relevant laws and regulations before displaying such advertisements, and we also request relevant advertiser to provide proof of governmental approval if an advertisement is subject to special government review.

***Regulation of Information Security and Censorship***

Applicable PRC laws and regulations specifically prohibit the use of Internet infrastructure where it may breach public security, distribute content harmful to the stability of society or disclose state secrets. It is mandatory for Internet companies in the PRC to complete security filing procedures and regularly update information security and censorship systems for their websites with the local public security bureau. In addition, the newly amended *Law on Preservation of State Secrets*, which became effective on October 1, 2010, provides that whenever an Internet service provider detects any leakage of state secrets in the distribution of online information, it should stop the distribution of such information and report such violation to the state security and public security authorities. Upon request of state security, public security or state secrecy authorities, the Internet service provider must delete any contents on its website that may lead to disclosure of state secrets. Failure to do so on a timely and adequate manner may subject the Internet service provider to liability and certain penalties enforced by the State Security Bureau, the Ministry of Public Security and/or MIIT or their respective local counterparts.

To comply with these laws and regulations, we have completed the mandatory security filing procedures with the local public security authorities, and regularly updated the information security and content-filtering systems with newly issued content restrictions as required by the relevant laws and regulations.

*Regulation of Internet Copyrights*

In order to address copyright issues relating to the Internet, the PRC Supreme People's Court adopted the *Interpretations on Some Issues Concerning Applicable Laws for Trial of Disputes over Internet Copyrights*, or the Interpretations. The Interpretations establish joint liability for Internet service providers if they participate in, assist in or abet infringing activities committed by any other person through the Internet, are aware of infringing activities committed by their website users through the Internet or fail to remove infringing content or take other action to eliminate infringing consequences after receiving warning with evidence of such infringing activities from the copyright holder. In addition, Internet service providers will be held liable for copyright infringement if they knowingly upload, transmit or provide any methods, equipment or materials which are intended to bypass or disrupt circumvention technologies designed to protect copyrights of other people. Upon request, the Internet service providers should provide the copyright holder with the registration information of the alleged violator for claiming the infringing liabilities, provided that such copyright holder has produced relevant evidence of identification, copyright ownership and infringement. Where the Internet service provider takes measures to remove the infringing content after receiving warning from the copyright holder with good evidence, the court will not support the claim of the alleged violator against such Internet service provider for breach of contract. According to the Copyright Law, an infringer must be subject to various consequences, which include stopping the infringement, eliminating the damages, apologizing to the copyright owners and compensating the loss of copyright owners. The Copyright Law further provides that the infringer shall compensate the actual loss suffered by the copyright owner. If the actual loss of the copyright owner is difficult to determine, the illegal income received by the infringer as a result of the infringement shall be deemed as the actual loss or if such illegal income is difficult to be determine, the court may decide the amount of the actual loss up to RMB500,000.

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Under the applicable laws and regulations, where a copyright holder finds that any content communicated through the Internet infringes upon its copyright and sends a notice to the ICP service operator, the ICP service operator shall immediately take measures to remove the relevant content. Such ICP service operator is also required to retain all infringement notices for six months and to record the content, display time and IP addresses and the domain names related to the infringement for 60 days. Where an ICP service operator removes relevant content of an internet content provider according to the notice of a copyright holder, the internet content provider may deliver a counter-notice to both the ICP service operator and the copyright holder, stating that the removed contents do not infringe upon the copyright of other parties. After the delivery of such counter-notice, the ICP service operator may immediately reinstate the removed contents and shall not bear administrative legal liability for such reinstatement. Where an ICP service operator is clearly aware of the infringement by an internet content provider of another's copyright through the Internet, or, although not being aware of such activity, fails to take measures to remove relevant contents upon receipt of the copyright owner's notice, and as a result, damages public interests, the ICP service operator could be subject to an order to stop the tortious act and other administrative penalties such as confiscation of illegal income and fines. Where there is no evidence to indicate that an ICP service operator is clearly aware of the facts of tort, or the ICP service operator has taken measures to remove relevant contents upon receipt of the copyright owner's notice, the ICP service provider shall not bear the relevant administrative legal liabilities.

Our content licensors and users have entered into agreements with us in which they make an undertaking not to provide or upload any contents that may have infringed on the copyright of any third parties. However, we cannot ensure you that our content licensors or users who upload contents to our website will not infringe on the copyright of any third parties and we could delete any infringed contents in a time manner or at all. We may be consequently subject to copyright infringement claims arising thereof. See Item 3. Key Information D. Risk Factors Risks Relating to Our Business and Industry We have been and expect we will continue to be exposed to intellectual property infringement and other claims, including claims based on content posted on our website, which could be time-consuming and costly to defend and may result in substantial damage awards and/or court orders that may prevent us from continuing to provide certain of our existing services.

***Regulation of Foreign Exchange Control and Administration***

Under the *Foreign Exchange Administration Rules*, Renminbi is convertible for current account items, including the distribution of dividends, interest payments, trade and service-related foreign exchange transactions. As for capital account items, such as direct investments, loans, security investments and the repatriation of investment returns, however, the conversion of foreign currency is still subject to the approval of, or registration with, SAFE or its competent local branches. SAFE approval is not necessary for the conversion of Renminbi for foreign currency payments for current account items except as otherwise explicitly provided by laws and regulations. Under the *Administration Rules of the Settlement, Sale and Payment of Foreign Exchange*, enterprises may only buy, sell or remit foreign currencies at banks that are authorized to conduct foreign exchange business after the enterprise provides valid commercial documents and relevant supporting documents and, in the case of certain capital account transactions, after obtaining approval from SAFE or its competent local branches. If we provide loans to our PRC subsidiary, the total amount of such loans may not exceed the difference between its total investment as approved by the foreign investment authorities and its registered capital at the time of the provision of such loans. Such loans need to be registered with the SAFE, which usually takes no more than 20 working days to complete. The cost of completing such registration is minimal. Capital investments by enterprises outside of the PRC are subject to further limitations, which include approvals by MOFCOM, SAFE and the National Development and Reform Commission, or their respective competent local branches.

On August 29, 2008, SAFE issued the *Circular on the Relevant Operating Issues Concerning the Improvement of the Administration of the Payment and Settlement of Foreign Currency Capital of Foreign-Invested Enterprises*, or Circular No. 142. Pursuant to Circular No. 142, Renminbi capital obtained from settlement of the foreign currency capital of a foreign-invested enterprise must be used within the business scope as approved by the applicable government authority and unless otherwise specifically provided by law, such Renminbi capital cannot be used for domestic equity investments. In addition, SAFE strengthened its oversight of the flow and use of the Renminbi capital converted from foreign currency registered capital of a foreign-invested company. As a result, the use of such Renminbi capital may not be altered without the SAFE's approval, and such Renminbi capital may not be used to repay Renminbi loans if the relevant loan proceeds have not been used. Violations of the Circular No. 142 could result in severe monetary fines or penalties.



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***Regulation of Foreign Exchange Registration of Offshore Investment by PRC Residents***

On October 21, 2005, SAFE issued the *Circular on Several Issues concerning Foreign Exchange Administration for Domestic Residents to Engage in Financing and in Return Investments via Overseas Special Purpose Companies*, or SAFE Circular No. 75, which went into effect on November 1, 2005. Circular No. 75 and the related rules provide that if PRC residents establish or acquire direct or indirect interest of offshore special purpose companies, or offshore SPVs, for the purpose of financing these offshore SPVs with assets of, or equity interests in, an enterprise in the PRC, or inject assets or equity interests of PRC entities into offshore SPVs, they must register with local SAFE branches with respect to their investments in offshore SPVs. Circular No. 75 also requires PRC residents to file changes to their registration if their offshore SPVs undergo material events such as capital increases or decreases, share transfers or exchanges, mergers or divisions, long-term equity or debt investments, and provisions of guaranties to foreign parties. SAFE subsequently issued relevant guidance to its local branches with respect to the operational process for the SAFE registration under Circular No. 75, which standardizes stringent supervision for registrations under Circular No. 75 and imposed obligations on onshore subsidiaries of offshore SPVs to coordinate with and supervise PRC residents holding direct or indirect interest in offshore SPVs to complete the SAFE registration process. Under the relevant SAFE rules, failure to comply with the registration procedures set forth in Circular No. 75 may result in restrictions being imposed on the foreign exchange activities of the relevant onshore companies of offshore SPVs, including the payment of dividends and other distributions to its offshore parent or affiliate and the capital inflow from such offshore entity, and may also subject relevant PRC residents and onshore companies to penalties under PRC foreign exchange administration regulations.

We understand that the aforesaid registration requirement under SAFE Circular No. 75 and the relevant implementing rules do not apply to our PRC subsidiary or our PRC resident beneficial owners due to the following reasons: (i) our company was incorporated and controlled by Phoenix TV, a Hong Kong listed company, rather than any PRC residents defined under SAFE Circular No. 75, (ii) none of the former or current shareholders of our PRC consolidated affiliated entities established or acquired interest in our company by injecting the assets of, or equity interest in, our consolidated affiliated entities, and (iii) before the public listing of our ADSs all of our PRC resident beneficial owners obtained interest in our company through exercise of options granted to them under our share incentive plan. However, we cannot assure you that SAFE or its local branch would hold the same opinion with us and the relevant government authorities have broad discretion in interpreting these rules and regulations. See Item 3. Key Information D. Risk Factors Risk Relating to Doing Business in China If the PRC government finds that our PRC beneficial owners are subject to SAFE registration requirement under SAFE Circular No. 75 and the relevant implementing rules and our PRC beneficial owners fail to comply with such registration requirements, it may subject these PRC beneficial owners to personal liability and limit our ability to acquire PRC companies or to inject capital into our PRC subsidiary, limit our PRC subsidiary's ability to distribute profits to us, or otherwise materially and adversely affect us.

***SAFE Regulation of Stock Incentive Plan***

On December 25, 2006, the People's Bank of China promulgated the *Administrative Measures for Individual Foreign Exchange*. On January 5, 2007, SAFE issued the *Implementation Rules of the Administrative Measures for Individual Foreign Exchange*, or the Individual Foreign Exchange Rules, which, among other things, specifies the approval requirements for a domestic individual's (including both PRC residents and non-PRC residents who reside in the PRC for a continuous period of not less than one year, excluding the foreign diplomatic personnel and representatives of international organizations) participation in employee stock plans or stock option plans of an overseas publicly listed company. On February 15, 2012, SAFE issued 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 Incentive Plan Rules, which terminated the *Processing Guidance on Foreign Exchange Administration of Domestic Individuals Participating in the Employee Stock Ownership Plans or Stock Option Plans of Overseas-Listed Companies* issued by SAFE on March 28, 2007. According to the Stock Incentive Plan Rules, if a domestic individual participates in any stock incentive plan of an overseas listed company, a qualified PRC domestic agent, which can be the PRC subsidiaries of such overseas listed company, shall, among other things, file, on behalf of such individual, an application with SAFE to conduct the SAFE registration with respect to such stock incentive plan, and obtain approval for an annual allowance with respect to the purchase of foreign exchange in connection with the stock purchase or stock option exercise. Such PRC individuals' foreign exchange income received from the sale

of stocks and dividends distributed by the overseas listed company and any other income shall be fully remitted into a collective foreign currency account in the PRC opened and managed by the PRC domestic agent before distribution to such individuals.

Our employees who are domestic individuals and have been granted share options, or PRC optionees are subject to the Stock Incentive Plan Rules. If we or our PRC optionees fail to comply with the Individual Foreign Exchange Rules and the Stock Incentive Plan Rules, we and/or our PRC optionees may be subject to fines and other legal sanctions. We may also face regulatory uncertainties that could restrict our ability to adopt additional option plans for our directors and employees under PRC law. See Item 3. Key Information D. Risk Factors Risks Relating to Our Business and Industry Failure to comply with PRC regulations regarding the registration requirements for stock incentive plans may subject the plan participants or us to fines and other legal or administrative sanctions.

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***Regulation of Dividend Distributions***

Wholly foreign-owned enterprises in the PRC may pay dividends only out of their accumulated profits, if any, as determined in accordance with PRC accounting standards and regulations. In addition, a wholly foreign-owned enterprise in the PRC is required to set aside at least 10% of its after-tax profit based on PRC accounting standards each year to its general reserves until its cumulative total reserve funds reaches 50% of its registered capital. The board of directors of a wholly foreign-owned enterprise has the discretion to allocate a portion of its after-tax profits to its employee welfare and bonus funds. These reserve funds, however, may not be distributed as cash dividends. Under the EIT Law and its implementation rules, dividends payable by a foreign-invested enterprise in the PRC to its foreign investor who is a non-resident enterprise will be subject to a 10% withholding tax, unless any such foreign investor's jurisdiction of incorporation has a tax treaty with the PRC that provides for a lower withholding tax rate.

**Regulation of Overseas Listings**

On August 8, 2006, six PRC regulatory agencies, namely, MOFCOM, the State Assets Supervision and Administration Commission, the State Administration for Taxation, SAIC, CSRC and SAFE, jointly adopted the *Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors*, or the M&A Rules, which became effective on September 8, 2006 and were amended in June 22, 2009. The M&A Rules purport, among other things, to require that offshore special purpose vehicles, or SPVs, that are controlled by PRC companies or individuals and that have been formed for overseas listing purposes through acquisitions of PRC domestic interest held by such PRC companies or individuals, to obtain the approval of the CSRC prior to publicly listing their securities on an overseas stock exchange. On September 21, 2006, the CSRC published a notice on its official website specifying documents and materials required to be submitted to it by SPVs seeking CSRC approval of their overseas listings. While the application of the M&A Rules remains unclear, our PRC counsel has advised us that based on its understanding of the current PRC laws, rules and regulations and the M&A Rules, prior approval from the CSRC is not required under the M&A Rules for the listing and trading of our ADSs on the NYSE because we have not acquired any equity interest or assets of a PRC domestic company owned by PRC companies or individuals, as defined under the M&A Rules, that are our beneficial owners after the effective date of the M&A Rules.

However, our PRC counsel has further advised us uncertainties still exist as to how the M&A Rules will be interpreted and implemented and its opinions summarized above are subject to any new laws, rules and regulations or detailed implementations and interpretations in any form relating to the M&A Rules. If the CSRC or another PRC regulatory agency subsequently determines that prior CSRC approval was required, we may face regulatory actions or other sanctions from the CSRC or other PRC regulatory agencies. These regulatory agencies may impose fines and penalties on our operations, limit our operating privileges, delay or restrict the repatriation of the proceeds from our initial public offering into the PRC or payment or distribution of dividends by our PRC subsidiaries, or take other actions that could materially adversely affect our business, financial condition, results of operations, reputation and prospects, as well as the trading price of our ADSs. If the CSRC later requires that we obtain its approval for our initial public offering, we may be unable to obtain a waiver of CSRC approval requirements, if and when procedures are established to obtain such a waiver. Any uncertainties or negative publicity regarding CSRC approval requirements could have a material adverse effect on the trading price of our ADSs.

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**C. Organizational Structure**

**Our Corporate Structure**

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

**Contractual Arrangements with Our Affiliated Consolidated Entities**

Foreign investment in the Internet and mobile services industries is currently prohibited or restricted in China. As a Cayman Islands company, we do not qualify to conduct these businesses under PRC regulations. In addition, foreign investment in the advertising industry requires the foreign investor to possess certain qualifications, which we do not have. See **B. Business Overview Regulatory Matters**. As a result, our business in China is operated through contractual arrangements with our affiliated consolidated entities.

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We do not have any equity interests in Tianying Jiuzhou or its subsidiaries or Yifeng Lianhe. However, as a result of these contractual arrangements, we are the primary beneficiary of each of Tianying Jiuzhou and Yifeng Lianhe and account for them as our consolidated affiliated entities under U.S. GAAP. Outstanding equity interests in Tianying Jiuzhou and Yifeng Lianhe are held by Haiyan Qiao and Ximin Gao, and Yinxia Liu and Yansheng He, respectively. Msrs. Qiao, Gao and He are all current employees of our company and have each been employed by us for approximately ten years. Ms. Liu is an employee of Zhongcheng Letian Property Development Company, a company founded by the chairman of Phoenix TV, Mr. Changle Liu. See Item 3. Key Information D. Risk Factors Risks Relating to Our Corporate Structure The shareholders of the affiliated consolidated entities may have potential conflicts of interest with us.

We have consolidated the financial results of each of Tianying Jiuzhou and its subsidiaries and Yifeng Lianhe in our consolidated financial statements in accordance with U.S. GAAP. In 2012, Tianying Jiuzhou and its subsidiaries accounted for 87.7% of our total revenues, and Yifeng Lianhe accounted for 11.8% of our total revenues.

### *Overview of the Contractual Arrangements*

The contractual arrangements among Fenghuang On-line, the affiliated consolidated entities and the shareholders of the affiliated consolidated entities enable us to:

- receive substantially all of the economic benefits from Tianying Jiuzhou and its subsidiaries and Yifeng Lianhe in consideration for the technical and consulting services provided and intellectual property rights licensed by Fenghuang On-line;
- exercise effective control over Tianying Jiuzhou and its subsidiaries and Yifeng Lianhe; and
- have an exclusive option to purchase all of the equity interests in Tianying Jiuzhou and Yifeng Lianhe when and to the extent permitted under PRC laws.

### *Agreements that Transfer Economic Benefits to Us*

*Exclusive Technical Licensing and Service Agreements.* Under the exclusive technical licensing and service agreements between Fenghuang On-line and each of the respective affiliated consolidated entities, or the technical service agreements, Fenghuang On-line has the exclusive right to provide designated technical and consulting services to the consolidated affiliated entities, including developing and upgrading various software, developing system technology, maintaining operational hardware and providing various training and consulting services, among other services. Third parties may only be engaged to provide the designated services to the affiliated consolidated entities under limited circumstances that are within the control of Fenghuang On-line.

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Pursuant to the technical service agreements, the affiliated consolidated entities have each agreed to pay to Fenghuang On-line an amount equal to