Phoenix New Media Ltd
Form 20-F
April 25, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 20-F

(Mark One)

o	**REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934**
	OR
x	**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** **For the fiscal year ended December 31, 2013.**
	OR
o	**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
o	**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

(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. Betty Yip Ho

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 Class A ordinary shares	New York Stock Exchange, Inc.
Class A ordinary shares, par value $0.01 per share*	New York Stock Exchange, Inc.

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* 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.

282,578,957 Class A ordinary shares were outstanding as of December 31, 2013
317,325,360 Class B ordinary shares were outstanding as of December 31, 2013

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

o Yes x 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.

o Yes x 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.

x Yes o 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).

x Yes o No

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

Large accelerated filer o	Accelerated filer x	Non-accelerated filer o

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

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

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.

o Item 17 o 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).

o Yes x 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.

o Yes o No

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PHOENIX NEW MEDIA LIMITED

FORM 20-F ANNUAL REPORT

FISCAL YEAR ENDED DECEMBER 31, 2013

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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 52.8% of our share capital as of March 31, 2014.

- 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 S

- Tianying Jiuzhou refers to Beijing Tianying Jiuzhou Network Technology Co., Ltd., a PRC domestic company and one of our affiliated consolidated entities;

- we, us, our company, our and Phoenix New Media refer to Phoenix New Media Limited, a Cayman Islands company and its predeces entities and 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 one of our affiliated consolidated entities.

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, 2011, 2012 and 2013, and as of December 31, 2012 and 2013.

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

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PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not required.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not required.

ITEM 3. KEY INFORMATION

A. Selected Financial Data

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, 2011, 2012 and 2013 and the selected consolidated balance sheet data as of December 31, 2012 and 2013 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 years ended December 31, 2009 and 2010 and the selected balance sheet data as of December 31, 2009, 2010 and 2011 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,					
	2009	2010	2011	2012	2013	
	RMB	RMB	RMB	RMB	RMB	US$
	(In thousands, except for number of shares and per share (or ADS) data)					
Consolidated Statements of Comprehensive Income Data						
Revenues:						
Net advertising revenues	81,632	204,369	465,824	610,160	863,737	142,679
Paid service revenues	180,715	324,326	484,768	500,844	560,738	92,627
Total Revenues	262,347	528,695	950,592	1,111,004	1,424,475	235,306
Cost of revenues(1)	(170,062)	(299,423)	(554,676)	(631,299)	(696,355)	(115,030)
Gross Profit	92,285	229,272	395,916	479,705	728,120	120,276
Operating expenses(1):						
Sales and marketing expenses	(46,364)	(76,152)	(164,082)	(197,038)	(273,399)	(45,162)

General and administrative expenses	(27,727)	(39,955)	(77,078)	(106,736)	(97,849)	(16,164)
Technology and product development expenses	(16,579)	(31,012)	(69,021)	(91,292)	(108,683)	(17,953)
Total operating expenses	(90,670)	(147,119)	(310,181)	(395,066)	(479,931)	(79,279)
Income from operations	1,615	82,153	85,735	84,639	248,189	40,997
Other income	332	2,429	31,886	39,697	67,422	11,137
Income before tax	1,947	84,582	117,621	124,336	315,611	52,134
Income tax expense	(1,660)	(10,499)	(15,146)	(16,977)	(37,588)	(6,209)
Net income	287	74,083	102,475	107,359	278,023	45,925
Net loss attributable to noncontrolling interests					1,531	253
Net income attributable to Phoenix New Media Limited	287	74,083	102,475	107,359	279,554	46,178
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)					
Net (loss)/income attributable to ordinary shareholders	(31,267)	(165,419)	(677,320)	107,359	279,554	46,178
Net income	287	74,083	102,475	107,359	278,023	45,925
Other comprehensive income/(loss), net of tax: foreign currency translation adjustment	162	(4,462)	(33,968)	(1,979)	(23,179)	(3,829)
Comprehensive income	449	69,621	68,507	105,380	254,844	42,096
Comprehensive loss attributable to noncontrolling interests					1,531	253
Comprehensive income attributable to Phoenix New Media Limited	449	69,621	68,507	105,380	256,375	42,349
Net (loss)/income attributable to ordinary shares	(31,267)	(165,419)	(677,320)	107,359	279,554	46,178
Net (loss)/income per Class A and Class B ordinary share:						
Basic	(0.10)	(0.51)	(1.30)	0.17	0.46	0.08
Diluted	(0.10)	(0.51)	(1.30)	0.17	0.45	0.07
Net (loss)/income per ADS (1 ADS represents 8 Class A ordinary shares):						
Basic	(0.78)	(4.05)	(10.44)	1.38	3.69	0.61
Diluted	(0.78)	(4.05)	(10.44)	1.33	3.59	0.59
Weighted average number of Class A and Class B ordinary shares used in computing net (loss)/income per share:						
Basic	321,387,913	327,045,493	519,227,660	624,010,270	605,988,397	605,988,397
Diluted	321,387,913	327,045,493	519,227,660	643,748,146	622,420,459	622,420,459
Non-GAAP adjusted net income attributable to Phoenix New Media Limited(2)	10,527	90,644	168,567	114,118	296,277	48,940

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Notes:

(1) Includes share-based compensation as follows:

	For the Years Ended December 31,					
	2009	2010	2011	2012	2013	
	RMB	RMB	RMB	RMB	RMB	US$
	(In thousands)					
Allocation of share-based compensation:						
Cost of revenues	775	854	19,526	958	7,293	1,205
Sales and marketing expenses	2,904	4,664	18,254	1,423	3,922	648
General and administrative expenses	5,757	10,406	17,470	4,085	3,662	605
Technology and product development expenses	804	637	10,842	293	1,846	304
Total share-based compensation included in cost of revenues and operating expenses	10,240	16,561	66,092	6,759	16,723	2,762

(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. 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 attributable to Phoenix New Media Limited together with net income attributable to Phoenix New Media Limited 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, which have been and will continue to be significant recurring expenses in our business. However, the use of adjusted net income attributable to Phoenix New Media Limited has material limitations as an analytical tool. One of the limitations of using non-GAAP adjusted net income attributable to Phoenix New Media Limited is that it does not include all items that impact our net income attributable to Phoenix New Media Limited 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 attributable to Phoenix New Media Limited in isolation from or as an alternative to net income attributable to Phoenix New Media Limited 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 years presented:

	For the Years Ended December 31,					
	2009	2010	2011	2012	2013	
	RMB	RMB	RMB	RMB	RMB	US$
	(In thousands)					
Net income attributable to Phoenix New Media Limited	287	74,083	102,475	107,359	279,554	46,178
Add back: Share-based compensation	10,240	16,561	66,092	6,759	16,723	2,762
Non-GAAP adjusted net income attributable to Phoenix New Media Limited	10,527	90,644	168,567	114,118	296,277	48,940

	As of December 31,					
	2009	2010	2011	2012	2013	
	RMB	RMB	RMB	RMB	RMB	US$
Consolidated Balance Sheet Data						
Cash and cash equivalents	223,086	287,173	397,166	916,169	1,308,138	216,089
Term deposits			784,023	235,000	93,672	15,474
Accounts receivable, net	35,318	77,043	202,097	280,987	353,379	58,374
Total current assets	275,059	400,705	1,505,939	1,556,028	1,941,037	320,637
Total assets	314,302	447,262	1,564,494	1,681,167	2,056,760	339,753
Current liabilities	115,358	148,554	252,207	306,831	469,494	77,556
Total liabilities	116,931	152,037	257,711	314,827	481,725	79,576
Mezzanine equity	183,774	390,183				
Total shareholders equity/(deficit)	13,597	(94,958)	1,306,783	1,366,340	1,575,035	260,177

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Currency Translation and Exchange Rates

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 RMB6.0537= US$1.00, which was the noon buying rate on December 31, 2013 in New York for cable transfers in Renminbi as set forth in the H.10 weekly statistical release of the Federal Reserve Board. 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.

	Noon Buying Rate			
Period	**Period End**	**Average**	**Low**	**High**
	(RMB per US$1.00)			
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
2013	6.0537	6.1412	6.2438	6.0537
October	6.0943	6.1032	6.1209	6.0815
November	6.0922	6.0929	6.0993	6.0903
December	6.0537	6.0738	6.0927	6.0537
2014				
January	6.0590	6.0509	6.0600	6.0402
February	6.1448	6.0816	6.1448	6.0591
March	6.2117	6.1707	6.2273	6.1460
April (through 18, 2014)	6.2240	6.2121	6.2240	6.1966

(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. 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 2011, 2012, and 2013, we generated 49.0%, 54.9% and 60.6% 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 79.1%, 80.8% and 80.9% of our net advertising revenues in China were derived from advertising agencies in 2011, 2012 and 2013, 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.

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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 2011, 2012 and 2013, our WVAS revenues accounted for 65.4%, 59.1% and 47.5%, 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:

- 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.

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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 media, online video and paid services 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 paid services 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.

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 2013. While increases in license fees for third-party video content did not significantly affect our cost of revenues in 2013, 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.

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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 paid services business, 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 paid services business, 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 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 2013, the annual service fee payment to Phoenix TV is RMB3.1 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 bran 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 paid mobile 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.

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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 GAPPRFT 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, GAPPRFT 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 GAPPRFT 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 GAPPRFT or its applicable local counterpart in its discretion, the applicable local counterpart of GAPPRFT 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 paid mobile video services and video advertising services would materially and adversely affect our business and results of operations.

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 2013, approximately 66.6% 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 2013, approximately 66.6% 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 were subject to these requirements for the first time with respect to our annual report on Form 20-F for the fiscal year ended December 31, 2012.

As of December 31, 2013, our management has concluded that our internal control over financial reporting is effective. 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, 2013.

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.

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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 mobile value added services revenues, or MVAS revenues, such as WVAS, mobile video, mobile digital reading, and mobile games from the provision of content or services 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, 2014 to deliver our services. In 2011, 2012 and 2013, we derived approximately 91.3%, 85.7% and 73.7%, 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 MVAS 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 MVAS through their networks. These mobile operators could terminate cooperation with us or refuse to perform their obligations to pay for the MVAS 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 MVAS 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.

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 MVAS 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 MVAS 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.

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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 MVAS 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 MVAS 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 MVAS 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 MVAS 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.

In addition, we cannot guarantee that MIIT or telecommunications operators will not restrict or halt our cooperation with handset manufacturers, or 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 MVAS, 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 MVAS 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.

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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, in January 2010, China Mobile began implementing a 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 MVAS, 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 MVAS, any of which could have a material adverse effect on our financial condition and results of operations.

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.

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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 of 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. 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 GAPPRFT 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 GAPPRFT 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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Tianying Jiuzhou is currently operating our online game business. 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 license almost all of our online and mobile games from other game operators and share profits with these game operators. We require these game operators to obtain the requisite approvals from GAPPRFT, and make the filings with the MOC, for relevant online and mobile games. As of the date of this annual report, we have not obtained advanced approval for some of our online and mobile games from GAPPRFT or completed filing with the MOC. We cannot assure you that (i) Yifeng Lianhe can obtain an Internet Publication License; or (ii) we or such game operators can obtain all the required approvals and complete the relevant filing procedures with the relevant government authorities for each game we 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 fail 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 and order us to cease certain services.

Our affiliated consolidated 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 affiliated consolidated 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, 2014, owned six registered trademarks that were transferred to it from Phoenix Satellite Television Trademark Limited. Yifeng Lianhe owned 17 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, 2014, Tianying Jiuzhou owned 97 PRC registered trademarks, six of which were transferred from Phoenix Satellite Trademark Limited, and Yifeng Lianhe owned 17 PRC registered trademarks. In addition, Tianying Jiuzhou had submitted eight registration applications relating to five logo designs to the PRC Trademark Office, and Yifeng Lianhe had submitted three registration applications relating to two logo designs to the PRC Trademark Office. Despite our having registered many trademarks used in our value-added telecommunications business operations, we may continue to use certain of Phoenix TV s logos that are licensed from Phoenix Satellite Television Trademark Limited.

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Although, neither of our affiliated consolidated 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 fail 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:

- 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 GAPPRFT), 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 GAPPRFT 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, 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.

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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 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.

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 MVAS 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.

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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 thirty 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.

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 most 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 liabilities. 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.

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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. Betty Yip Ho, 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.

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.

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, 2014, 612,500 restricted shares of our company, 2,159,001 contingently issuable shares, options to purchase 36,855,701 Class A ordinary shares and restricted share units obligating our company to issue and deliver 224,147 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, 2011, 2012 and 2013, we recorded RMB66.1 million, RMB6.8 million and RMB16.7 million (US$2.8 million), respectively, in share-based compensation. The significant increase in our share-based compensation in 2011 was primarily due to our grant of restricted shares and restricted share units to certain of our employees in March 2011. In 2013, we also granted option shares to some of key employees and 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. If we continue to grant share options in the future, our share-based compensation 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, 2013 to March 31, 2014, we have been subject to 77 cases in the PRC, 61 of which have been concluded. For more information, see Item 4. Information on the Company B. Business Overview Legal and Administrative .

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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.

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 an 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 HNTEs 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.

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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