VISIONCHINA MEDIA INC.
Form 20-F
September 20, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 20-F

(Mark One)

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

OR

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the fiscal year ended December 31, 2015**

OR

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

OR

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

Date of event requiring this shell company report _________________

For the transition period from   to

Commission file number 001-33821

VisionChina Media Inc.
(Exact name of Registrant as specified in its charter)

Cayman Islands
(Jurisdiction of incorporation or organization)

1/F Block No.7 Champs Elysees
Nongyuan Road, Futian District
Shenzhen 518040
People's Republic of China
(Address of principal executive offices)

Limin Li, telephone: (86 755) 8293-2222; fax: (86 755) 8298-1111
At the address of the Company set forth above
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
Common Shares, par value US$0.0001 per share	Nasdaq Global Market*
American Depositary Shares, each representing 20 Common Shares	Nasdaq Global Market

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

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

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

102,741,977 Common Shares

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.	¨ 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.	¨ Yes **x** No
Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.	**x** Yes ¨ No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).	**x** Yes ¨ No

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

Large accelerated filer ¨ Accelerated filer ¨ Non-accelerated filer **x**

Indicate by check mark which basis of accounting the registration 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 ¨	Other ¨

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

¨ Item 17 ¨ Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934).

¨ 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 Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

¨ Yes ¨ No

* Not for trading, but only in connection with the listing on the Nasdaq Global Market of the American Depositary Shares

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CONVENTIONS THAT APPLY TO THIS ANNUAL REPORT ON FORM 20-F

Unless otherwise indicated, references in this annual report to:

- "ADSs" refers to our American depositary shares, each of which represents 20 common shares; and "ADRs" refers to the American depositary receipts that may evidence our ADSs;

- "China" or the "PRC" refers to the People's Republic of China, excluding, for the purpose of this annual report only, Taiwan, and the special administrative regions of Hong Kong and Macau; and

- "Local operating partners" refers to the local television stations with which we established our direct investment entities or from which we buy advertising time, or the local mobile digital television operating companies with which we entered into exclusive agency agreements or from which we buy advertising time.

As of December 31, 2015, the local television stations with which we had established our direct investment entities included: Chengdu Television Station, Shenzhen Media Group, Jilin Television Station, Haerbin Television Station, Dalian Television Station, Henan Cable Television Network Group Co., Ltd., Hubei Broadcast and Television General Station, Wuxi Broadcast and Television Group, Suzhou Broadcast and Television General Station, Changzhou Television Station, and Ningbo Broadcast and Television Group.

As of December 31, 2015, the local mobile digital television operating companies with which we had entered into exclusive agency agreements included: Beijing Beiguang Media Mobile Television Co., Ltd, Guangzhou Pearl River Mobile Multimedia Television Co., Ltd., Nanjing Guangdian Mobile Television Development Co., Ltd., Chengdu China Digital Mobile Television Co., Ltd., Wuxi Guangtong Digital Mobile Television Co., Ltd., Ningbo China Mobile Television Development Co., Ltd., Shanxi Dazhong Mobile Television Co., Ltd., Jilin Mobile Television Co., Ltd., Dalian Mobile Digital Television Co., Ltd., Hubei China Mobile Television Co., Ltd., Liaoning Beifang New Media Co., Ltd., Xiamen Radio and Television Digital Media Co., Ltd., Suzhou China Mobile Television Co., Ltd., Changzhou China Mobile Television Company Limited, Changsha Guangdian Digital Mobile Television Co., Ltd., and Henan China Digital Mobile Television Company Limited.

- "RMB" or "Renminbi" refers to the legal currency of China; "$", "dollars", "US$" and "U.S. dollars" refer to the legal curren the United States;

- "shares" or "common shares" refers to our common shares; "preferred shares" refers to our Series A convertible redeemable preferred shares and Series B convertible preferred shares; and

- "we", "us", "our company", "our" and "VisionChina" refer to VisionChina Media Inc., a Cayman Islands company, its predecessor entities and subsidiaries, and its consolidated affiliated entities and their subsidiaries. Although VisionChina does not directly or indirectly own any equity interest in its consolidated affiliated entities, VisionChina effectively controls these entities through a series of contractual arrangements. We treat our consolidated affiliated 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.

This annual report includes our audited consolidated financial statements for the years ended December 31, 2013, 2014 and 2015 and as of December 31, 2014 and 2015.

ADSs are listed on the Nasdaq Global Market under the symbol "VISN". On December 12, 2012, we effected a change in our ADS to common share ratio from one ADS representing one common share to one ADS representing 20 common shares.

PART I.

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not Applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not Applicable.

ITEM 3. KEY INFORMATION

A. Selected Financial Data

The following selected condensed consolidated statement of operations data for the years ended December 31, 2013, 2014 and 2015 and the condensed consolidated balance sheet data as of December 31, 2014 and 2015 have been derived from our audited consolidated financial statements, which are included elsewhere in this annual report. The following selected condensed consolidated statement of operations data for the years ended December 31, 2011 and 2012 and the condensed consolidated balance sheet data as of December 31, 2011, 2012 and 2013 have been derived from our audited consolidated financial statements, which are not included elsewhere in this annual report.

In December 2015, our subway business has been presented as discontinued operations in accordance with US. GAAP in our consolidated financial statements. Our historical financial statements are restated to present discounted operations separately.

You should read the selected condensed consolidated financial data in conjunction with the financial statements and the related notes included elsewhere in this annual report and “Item 5. Operating and Financial Review and Prospects.” Our consolidated financial statements are prepared and presented in accordance with U.S. GAAP. Our historical results do not necessarily indicate our results expected for any future periods.

	For the year ended December 31, 2011	2012	2013	2014	2015
	(US$, except number of shares)				
Condensed Consolidated Statement of Operations Data:					
Revenues(1)					
Advertising service revenue	81,743,567	56,996,981	53,558,824	52,209,283	37,971,760
Advertising equipment revenue	1,301,959	298,892	484,977	463,177	2,092,026
Wi-Fi revenue	—	—	—	—	1,400,187
Total revenues	83,045,526	57,295,873	54,043,801	52,672,460	41,463,973
Cost of revenues					
Advertising service cost	(53,352,999)	(55,812,793)	(48,335,638)	(58,073,338)	(39,119,233)
Advertising equipment cost	(1,494,027)	(345,291)	(513,095)	(538,517)	(1,825,994)
Wi-Fi cost	—	—	—	—	(5,166,698)
Total cost of revenues	(54,847,026)	(56,158,084)	(48,848,733)	(58,611,855)	(46,111,925)
Gross profit/(loss)	28,198,500	1,137,789	5,195,068	(5,939,395)	(4,647,952)
Operating expenses(2)	(51,272,660)	(239,108,878)	(33,463,714)	(25, 965,092)	(21,076,163)
Government grant	—	756,757	2,783,085	4,165,627	135,381
Share of profits (losses) from equity method investees	183,188	135,654	(93,217)	(57,777)	410,467
Dividend income	142,265	162,100	128,611	254,759	44,827
Gain on settlements of consideration payable	—	—	—	1,800,047	—

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	For the year ended December 31, 2011	2012	2013	2014	2015
	(US$, except number of shares)				
Impairment loss on a cost method investee	—	—	—	—	(808,304)
Impairment loss on investments under equity method	—	—	—	—	(537,939)
Other operating income	175,903	—	1,307	—	—
Operating loss	(22,572,804)	(236,916,578)	(25,448,860)	(25,741,831)	(26,479,683)
Interest income	1,711,101	696,270	418,673	307,007	116,894
Interest expense	(4,716,577)	(2,614,543)	(1,425,625)	(4,569,207)	(5,964,443)
Change in fair value through profit and loss	—	—	—	157,518	(562,738)
Other income (expenses)	42,153	(605,958)	(669,018)	(587,937)	176,790
Net loss from continuing operations before income taxes	(25,536,127)	(239,440,809)	(27,124,830)	(30,434,450)	(32,713,180)
Income tax benefit (expense)	793,415	7,547,421	(373,584)	(142,554)	—
Net loss from continuing operations after income tax benefit (expenses)	(24,742,712)	(231,893,388)	(27,498,414)	(30,577,004)	(32,713,180)
Net loss attributable to noncontrolling interest	114,962	118,724	88,489	388,732	1,923,314
Net loss from continuing operations	(24,627,750)	(231,774,664)	(27,409,925)	(30,188,272)	(30,789,866)
Net profit (loss) from discontinued operations (3)	12,124,458	(14,634,528)	3,442,055	(888,943)	7,389,520
Net loss attributable to VisionChina Media Inc. shareholders	(12,503,292)	(246,409,192)	(23,967,870)	(31,077,215)	(23,400,346)
Net loss per common share from continuing operations:					
Basic	(0.24)	(2.29)	(0.27)	(0.30)	(0.30)
Diluted	(0.24)	(2.29)	(0.27)	(0.30)	(0.30)
Net profit/(loss) per common share from discontinued operations:					
Basic	(0.12)	(0.14)	0.03	(0.01)	0.07
Diluted	(0.12)	(0.14)	0.03	(0.01)	0.07
Net loss per common share:					
Basic	(0.12)	(2.43)	(0.24)	(0.31)	(0.23)
Diluted	(0.12)	(2.43)	(0.24)	(0.31)	(0.23)
Weighted average number of shares used in computation of net loss per share:					
Basic	102,047,412	101,351,222	101,495,442	101,601,913	102,353,956
Diluted	102,047,412	101,351,222	101,495,442	101,601,913	102,353,956
Share-based compensation expenses during the related periods included in:					
Cost of revenues	58,836	52,824	73,225	72,778	48,988
Selling and marketing expenses	447,767	394,719	379,246	107,404	4,761

General and administrative expenses	311,070	221,111	389,819	390,499	130,065

(1) Before January 1, 2012, our advertising revenues were subject to business tax. The PRC government implemented a value-added tax, or VAT, reform pilot program, or the VAT Tax Reform, which replaced the business tax with VAT on selected sectors including the advertising sector, in Shanghai effective from January 1, 2012, in Beijing effective from September 1, 2012, and in Shenzhen effective from November 1, 2012. Commencing on August 1, 2013, the VAT Tax Reform expanded to all regions in the PRC. With the adoption of the VAT Tax Reform, the VAT rate on our advertising revenues applicable to the subsidiaries and consolidated variable interest entities is 6% as compared to the 5% business tax rate which was applicable prior to the reform.

(2) Included in operating expenses for the years ended December 31, 2012 were non-cash impairment losses of US$178.8 million, made against the intangible assets and goodwill relating to our acquisitions of three out of the six advertising agency businesses in 2008 and our acquisition of Digital Media Group Company Limited, or Digital Media Group, in 2010.

(3) We have solicited for purchasers of the subway mobile TV business during 2015. As of December 31, 2015, based on the status of negotiations between us and the purchaser of the subway business, we considered that the sale of subway business was probable and that the criteria for classification of subway business as an asset held for sale had been met. As a result, during the year ended December 31, 2015 and as of December 31, 2015, we presented the operations of subway business as discontinued operations and the assets as assets held for sale and liabilities to liabilities held for sale. In February 2016, we entered into a series of definitive agreements with Ledman Optoelectronic Co., Ltd. ("Ledman") to sell all of our equity interests in VisionChina New Culture Media Co., Ltd. ("New Culture"), the operating entity of our subway mobile TV advertising business. On July 22, 2016, we and Ledman mutually agreed to submit an application for suspension of the transaction to the China Securities Regulatory Commission ("CSRC"), due to pending uncertainties surrounding government regulatory policies pertaining to foreign-listed Chinese companies relisting in China's domestic stock market.

On August 19, 2016, we entered into new equity transfer agreement and a profit compensation agreement to sell 49% equity interest of New Culture to Ledman for an aggregate consideration of RMB382.2 million. Pursuant to the equity transfer agreement, the consideration comprises RMB61 million in cash and the other RMB321.2 million in cash with restriction that such cash need to be used for purchasing the shares of Ledman from a major shareholders of Ledman.

	As of December 31,				
	2011	2012	2013	2014	2015
	(US$, except number of shares)				
Condensed Consolidated Balance Sheet Data:					
Cash and cash equivalents	80,309,629	29,012,381	38,949,359	19,466,735	8,541,890
Total assets	415,140,682	149,795,319	151,140,598	102,306,914	90,974,833
Total current liabilities	120,961,630	108,805,722	129,630,299	61,541,478	118,842,314
Total equity (deficit)	283,401,981	40,012,946	19,335,233	(10,253,238)	(27,867,481)
Common shares	10,131	10,137	10,156	10,212	10,274
Total VisionChina Media Inc. shareholders' equity (deficit)	283,184,369	39,914,058	19,324,834	(11,510,067)	(30,929,940)
Number of common shares issued and outstanding	101,313,015	101,366,544	101,560,744	102,121,144	102,353,956

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	As of December 31,		
	2013	2014	2015
Selected Operating Data(3):			
Number of digital television displays in our mobile digital television advertising network:			
Exclusive agency cities	78,955	72,489	60,915
Direct investment cities	—	—	—
Total	78,955	72,489	60,915
Number of digital displays in our supplemental subway advertising platform	32,208	18,786	27,929

	For the Year Ended December 31,		
	2013	2014	2015
Total hours of broadcasting(1)	152,575	147,077	128,303
Average revenue per hour(1)(2) (US$)	633	590	323
Average advertising minutes sold per hour	7.43	7.94	6.71

(1) Includes all of the cities in our network and supplemental subway advertising platform.

(2) We calculate average revenue per hour by dividing our advertising service revenue derived from our network and supplemental subway advertising platform by the total hours of broadcasting in the cities of our network and supplemental subway advertising platform.

(3) Operating data presented includes operating data for discontinued operations

Exchange Rate Information

A number of RMB-denominated figures used in this annual report are accompanied with U.S. dollar translations. These translations are based on the noon buying rate in The City of New York for cable transfers of RMB as certified for customs purposes by the Federal Reserve Bank of New York on December 31, 2015, which was RMB6.4907 to US$1.00. We make no representation that any RMB or U.S. dollar amounts could have been, or could be, converted into U.S. dollars or RMB, as the case may be, at any particular rate, the rates stated below, or at all. The PRC government imposes control over its foreign currency reserves in part through direct regulation of the conversion of RMB into foreign currencies and through restrictions on foreign trade.

The following table sets forth information concerning exchange rates between the RMB and the U.S. dollar for the periods indicated. These rates are provided solely for your convenience and are not necessarily the exchange rates that we used in this annual report or will use in the preparation of our periodic reports or any other information to be provided to you. The exchange rate of RMB per U.S. dollar as set forth in the H.10 statistical release of the Federal Reserve Board was RMB6.6778 to US$1.00 as of September 9, 2016.

Period	Exchange Rate (Renminbi per US Dollar) (1)			
	Period End	Average (2)	Low	High
	(RMB per US$1.00)			
2011	6.2939	6.4475	6.2939	6.6364
2012	6.2301	6.2990	6.2221	6.3879
2013	6.0537	6.1478	6.0537	6.2438
2014	6.2046	6.1620	6.0402	6.2591
2015	6.4778	6.2827	6.1870	6.4896
2016				
March	6.4480	6.5027	6.4480	6.5500
April	6.4738	6.4754	6.4571	6.5004

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Period	Exchange Rate (Renminbi per US Dollar) (1)			
	Period End	Average (2)	Low	High
	(RMB per US$1.00)			
May	6.5798	6.5259	6.4738	6.5798
June	6.6459	6.5892	6.5590	6.6481
July	6.6371	6.6771	6.6371	6.7013
August	6.6776	6.6466	6.6239	6.6778
September (through September 9, 2016)	6.6778	6.6707	6.6600	6.6790

(1) The source of the exchange rate is the H.10 statistical release of the Federal Reserve Board.

(2) 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 Applicable.

C. Reasons for the Offer and Use of Proceeds

Not Applicable.

D. Risk Factors

You should consider carefully all of the information in this annual report, including the risks and uncertainties described below and our consolidated financial statements and related notes. Any of the following risks could have a material adverse effect on our business, financial condition and results of operations. In any such case, the market price of our ADSs could decline.

Risks Related to Our Company and Our Industry

We incurred recurring loss and experienced negative cash flow from operations that may raise substantial doubt on our ability to continue as a going concern in the foreseeable future.

We recorded net losses from continuing operation of US$27.5 million, US$30.6 million and US$32.7 million for the years ended December 31, 2013, 2014 and 2015, respectively. As of December 31, 2015, we had cash and cash equivalents of US$8.5 million with bank borrowings due within one year of US$9.2 million and a convertible note reaching maturity within one year related to our settlement of a litigation with certain former shareholders of Digital Media Group, or Former DMG Shareholders, in the amount of US$55.9 million. For more information on our legal disputes with Former DMG Shareholders, see "Item 8. Financial Information—Legal and Administrative Proceedings."

For reasons stated above, third parties may doubt the adequacy of our sources of liquidity to fund our working capital and capital expenditure requirements and to meet our short term debt obligations, other liabilities and commitments as they become due. Such uncertainty may create additional concerns for our creditors, suppliers, customers and other counterparties, which may make it more difficult for us to conduct our business and meet our debt and other obligations. Moreover, our consolidated financial statements do not include any adjustments that might result from the outcome of that uncertainty; and the adjustments to our consolidated financial statements could be substantial.

Furthermore, the uncertain sustainability of China's advertising industry in the current macroeconomic environment is likely to continue to adversely affect demand for our service. In order to mitigate the above factors, we have the following plans and actions:

- We have successfully negotiated with China Construction Bank (Shenzhen branch) ("CCB(SZ)") and will continue to negotiate with other banks to obtain revolving bank facilities to ensure the our bank borrowings can be renewed on an on-going basis. On February 22, 2016, we entered into another RMB80.0 million (equivalent to US$12.2 million) secured revolving credit facility granted by CCB (SZ) with interest rate in a range between 99.615% to 102.66% of the Loan Prime Rate in the PRC.

- We have entered into an equity transfer agreement and a profit compensation agreement to sell 49% equity interest of New Culture to Ledman. Pursuant to the equity transfer agreement, Ledman will pay RMB61 million in cash and the other RMB321.2 million in cash with restriction that such cash need to be used for purchasing the shares of Ledman from a major shareholders of Ledman.

- We are actively negotiating with potential buyers to dispose the remaining 51% equity interest in New Culture.

- We are actively negotiating with the holders of convertible promissory notes to extend the payments of the overdue amounts of $55.9 million.

We have taken or in process of taking a number of initiatives to reduce costs and improve working capital management. We have been negotiating with a number of vendors, including vendors of concession right contracts, for them to provide us with lower prices or more favorable payment terms in order to achieve cost savings. We decided to postpone a substantial portion of its planned capital expenditures for the next twelve months. In addition, we has implemented measures to more closely monitor the collection of receivable balances with an aim to improving liquidity. We expect that, taking into account our plan to sell all of our equity interests in New Culture, adequate sources of liquidity will exist to fund our working capital and capital expenditure requirements and to meet our short term debt obligations, other liabilities and commitments as they become due. However, there can be no assurance that we will be able to sell all of our equity interests in New Culture, or that such sales will provide adequate sources of liquidity.

If we are not able to successfully implement the above plans or actions, a substantial doubt on our ability to continue as a going concern for the foreseeable future may be resulted.

We have failed to comply with the terms of the US$58 million of secured convertible promissory notes issued by us to the Former DMG Shareholders, which resulted in a default under the terms of those notes and, if such default were uncured, it could potentially result in action that may undermine control over certain subsidiaries of our company.

Pursuant to our settlement agreement with the Former DMG Shareholders, we issued to them US$58 million of convertible promissory notes, or the Notes. These Notes are subject to certain terms and conditions including negative covenants that, among other things, restrict our ability to, with certain exceptions, (i) agree to any encumbrances or undertakings with respect to the assets or revenues of our company, its subsidiaries and consolidated variable interest entities, or VIEs, collectively the Group except for collateral for bank loans in the ordinary course of business and on normal commercial terms, (ii) engage in dissolution or liquidation of major subsidiaries, (iii) transfer equity interest in any subsidiaries, (iv) pay dividends or make distributions, or (v) modify our arrangement with respect to our variable interest entities, or VIEs. We will redeem the Notes in instalments on each anniversary of the issue date from the first to the sixth anniversaries of the issue date, in amounts of US$4 million, US$5 million, US$13.5 million, US$16.5 million, US$16 million and US$3 million, respectively.

As of August 31, 2016, we have failed to comply with our payment obligations under the Notes and the settlement agreement, and Former DMG Shareholders have declared a default under the Notes. The default remains uncured by us, and the Former DMG Shareholders have certain rights with respect to replacing members of the boards of directors of certain subsidiaries in the Group. As of the date of this report, the Former DMG Shareholders have not exercised such rights.

In July 2016, concerning our breach of the settlement agreement, Grand Court of Cayman Islands issued a ruling (the “Cayman Ruling”) that ordered us to pay the Former DMG Shareholders a) approximately US$59.4 million (the "Judgment Amount"), b) interest at the rate of 9% per annum calculated from November 16, 2010 as to US$30 million and from November 16, 2011 as to the remaining portion of the Judgment Amount, until such Judgment Amount is paid in full and c) costs on the indemnity basis to be taxed if not agreed.

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We seek to enter into a new settlement agreement with the Former DMG Shareholders to satisfy the Cayman Ruling. The parties are currently in discussions regarding such settlement agreement. There can be no assurance that we will be able to obtain a settlement agreement under terms favorable to us, or at all. If the Former DMG Shareholders were able to enforce the Cayman Ruling against us, our business, financial condition and results of operations would be materially and adversely affected.

Any conversion of the Notes would dilute the ownership interests of our existing shareholders and holders of our ADSs.

The Former DMG Shareholders now hold the Notes in an amount of US$58.0 million. The Notes do not contain a mandatory conversion requirement. Any Former DMG Shareholder may convert the Notes held by it, at its election, in either of the following two scenarios: (1) Conversion Qualified Financing: Upon the closing of any transactions in which we issue equity securities or securities convertible into equity, or Qualified Financing, the Former DMG Shareholders shall have the right to convert the Notes at their election. The maximum amount of the Notes which the Former DMG Shareholders may convert shall not exceed the lower of (i) outstanding principal plus interest accrued on the Notes; and (ii) gross proceeds of the Qualified Financing. The price payable to convert the Notes shall be 80% of (i) the effective per share price in the Qualified Financing; or (ii) the conversion price for the debt or other securities convertible into common shares to be issued in the Qualified Financing; (2) Maturity Date Conversion: we may elect to repay at any time no later than 60 days before the corresponding maturity date. The Former DMG Shareholders shall have the option to, within the 30 days before each maturity date, convert some or all of the Notes, into shares in us at a price which is 80% of the weighted average NASDAQ trading price during the last 90 days before the issuance of a conversion notice in respect of said Notes. The conversion of some or all of the Notes would dilute the ownership interests of our existing shareholders and holders of our ADSs, and could cause the price of our ADSs to decline. In addition, any sales in the public market of the ADSs issuable upon such conversion could adversely affect the price for our ADSs prevailing in the open market.

We have a limited operating history, which may make it difficult for you to evaluate our business and prospects.

We began operations in April 2005. Accordingly, we have a very limited operating history upon which you can evaluate the viability and sustainability of our business and its acceptance by advertisers and consumers. It also is difficult to evaluate the viability of our mobile digital television- advertising network on mass transportation systems because we do not have sufficient experience to address the risks frequently encountered by early stage companies using new forms of advertising media and entering new and rapidly evolving markets. These circumstances may make it difficult for you to evaluate our business and prospects. In addition, due to our limited operating history and recent additions to our management team, some of our senior management and employees have only worked together at our company for a relatively short period of time. As a result, it may be difficult for you to evaluate the effectiveness of our senior management and other key employees and their ability to address future challenges to our business.

We have incurred net losses in the past and may incur losses in the future.

We recorded net losses of US$24.0 million, US$31.1 million and US$23.4 million for the years ended December 31, 2013, 2014 and 2015, respectively. We pay media costs, the components of which are detailed in "Item 5. Operating and Financial Review and Prospects — A. Operating Results — Cost of Revenues — Advertising Service Costs — Media Costs", to our local operating partners for operating our advertising business on buses and subways. For both continuing and discontinued operations, media costs constitute a significant portion of our cost of revenues and accounted for approximately 69.6%, 69.9% and 69.5% of our total revenues in the years ended December 31, 2013, 2014 and 2015, respectively. As of December 31, 2015, in respect of the exclusive agency agreements for our bus platforms, nine were entered into with our direct investment entities and seven were entered into with independent local operating partners. In respect of the exclusive agency agreements for our subway platforms, one agreement was entered into with one of our direct investment entities and all other agreements were entered into with independent local operating partners across five cities in the PRC. Our exclusive agency agreements typically have terms ranging from three to ten years, and do not contain any renewal provisions. Upon expiration of the exclusive agency agreements, we will discuss renewing the agreements with our local operating partners, and the detailed terms of the new exclusive agency agreements will be negotiated at that time. The exclusive agency agreements cannot be terminated before the expiry of their terms unless agreed by both parties, and any party who initiates early termination of such an agreement is subject to penalty at an amount specified in the agreement. Our media costs each year pursuant to each of these agreements is fixed and is determined upfront at the time when the agreements were signed. We negotiate each of our exclusive agency agreements with our local operating partners on a case-by-case basis and also determine through negotiation the amount of the media costs for each year under the agreement. All of our exclusive agency agreements contain escalation clauses to increase the media costs at pre-determined fixed amounts each year under the agreements, except for (i) two exclusive agency agreements that in aggregate accounted for less than 5% of our media costs and (ii) one exclusive agency agreement that has a fixed media cost for the first six years with an annual increase in the media costs beginning in the seventh year. However, our revenues may fluctuate significantly from period to period due to, among other factors, seasonality, customer loyalty, competition and changes in regulations. If our revenues decrease in a given period, we may be unable to reduce our cost of revenues as a significant portion of our cost of revenues is fixed, which could materially and adversely affect our results of operations, and result in a net loss in that period.

If PRC regulators order one or more of our local operating partners to stop their mobile digital television operations due to violations of applicable regulations, our business, financial condition and results of operations would be materially and adversely affected.

On March 17, 2014, the PRC State Administration of Press, Publication, Radio, Film and Television, or SARFT, promulgated the *Notice Concerning Regulating Development of Mobile Digital Television*, or the March 2014 Notice. The March 2014 Notice regulates mobile digital television operations and mainly comprises the following provisions:

- mobile digital television businesses shall be operated by municipal or provincial radio and television stations, and satisfy the following requirements:
- mobile digital television operations shall comply with the overall plan and layout of mobile digital television determined by SARFT;
- mobile digital television operations shall be conducted in cities with a relatively high level of economic and social development, which should have no less than 2,000 buses in total, or have a subway or light railway transportation system;
- the equity fund, equipment, worksite and professional personnel required for mobile digital television operations shall be commensurate with the relevant business scale;
- there shall be a sound system in place for the review, broadcast and monitoring of programs on mobile digital television;
- the business operator shall have program resources which are in compliance with relevant state regulations and commensurate with its business scale;
- the technical system shall meet the industrial and technical standards required by the relevant state regulations;
- permits to transmit radio and television programming shall be obtained for the integrated signal transmission platform, which platform shall be regulated by and qualified with SARFT;
    - mobile digital television operations that are newly conducted after the March 2014 Notice shall obtain approval from SARFT;

- mobile digital television operations shall comply with the Measures for Administration of Advertisement Broadcasting by Radio and Television promulgated in 2009 by SARFT, including restrictions on total advertising time, frequency, content and format of advertisements;

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- national mobile digital television standards have been established and all mobile digital television operations shall comply with such national standards; and

- the *Notice Concerning Experimental Mobile Digital Television* previously promulgated by SARFT, or the March 2006 Notice, has been repealed as of March 17, 2014.

These regulations apply directly to our local mobile digital television operating partners because they are in the business of operating mobile digital television networks. SARFT and its local branches have the authority to halt the operations of any mobile digital television operator that has violated the March 2014 Notice or other applicable laws or regulations.

SARFT or its local branches may order any of our local operating partners to stop their operations. If any of our local operating partners is ordered to stop their mobile digital television operations in a given city, we may not be able to continue our advertising business in that city through other media or channels at acceptable costs, or at all. In which case, our business, financial condition and results of operations would be materially and adversely affected.

We may be subject to, and may expend significant resources in defending against, government actions and civil suits based on the content and services we provide through our mobile digital television advertising network.

PRC advertising laws and regulations require advertisers, advertising operators and advertising distributors, including businesses such as ours and those of our local operating partners, to ensure that the content of the advertisements they prepare or distribute is fair, accurate and in full compliance with applicable laws, rules and regulations. Violation of these laws, rules or regulations may result in penalties, including fines, confiscation of advertising fees, orders to cease dissemination of the advertisements, and/or orders to publish an advertisement correcting any misleading information. In circumstances involving serious violations, the PRC government may revoke a violator’s license to operate its advertising business.

As an operator of an advertising medium, we are obligated under PRC laws, rules and regulations to monitor the advertising content aired on our network or supplemental subway advertising platform for compliance with applicable laws. Although the advertisements shown on our network generally have previously been broadcast over public television networks and have been subjected to internal review and verification by these broadcasters, we are required to review and verify these advertisements separately and independently for content compliance before displaying these advertisements. In addition, for advertising content related to special types of products and services, such as alcohol, cosmetics, pharmaceuticals and medical procedures, we are required to confirm that the advertisers have obtained requisite government approvals including operating qualifications, proof of quality inspection of the advertised products, government pre-approval of the contents of the advertisement, and filing with the local authorities. We employ, and our local direct investment entities are required by applicable PRC laws, rules and regulations to employ, qualified advertising inspectors who are trained to review advertising content for compliance with applicable PRC laws, rules and regulations. We endeavor to comply with such requirements, including by requesting relevant documents from advertisers. Our reputation would be tarnished and our results of operations may be adversely affected if advertisements shown on our mobile digital television advertising network or supplemental subway advertising platform were provided to us by our advertising clients in violation of relevant PRC content laws and regulations, or if the supporting documentation and government approvals provided to us by our advertising clients in connection with such advertising content were not complete, or if the advertisements that our local operating partners have broadcasted on our network were not approved by relevant local supervisory bodies, or if the content of any advertisement were not compliant with applicable laws and regulations.

All forms of outdoor advertisements must be registered in advance of their dissemination with the relevant local branch of the State Administration of Industry and Commerce, or SAIC, which regulates advertising companies. Advertising distributors are required to submit a registration application form as well as the content of the advertisement to the local SAIC branch in order to receive an advertising registration certificate. Applicable PRC laws and regulations are not clear as to whether advertising on public transportation systems or other out-of-home locations are considered to be "outdoor advertising". In practice, local SAIC branches have discretion to determine whether such advertising constitutes outdoor advertising which would require registration with the relevant local SAIC branch. Local SAIC branches in different regions of the PRC may reach different conclusions with respect to this issue and such conclusions also may be subject to further revisions or amendments. All of our local operating partners are affiliates or subsidiaries of state-owned television stations operating under SARFT, and the senior management of these state-owned television stations consists of appointed government officials. The competent government authority grants state-owned television stations the authority to review and approve advertisements to be broadcast. These state-owned television stations have confirmed that advertisements can be broadcast on mobile digital television without being classified as outdoor advertising. We and each of our local operating partners do not believe that advertising activity on public transportation constitutes "outdoor advertising" and therefore do not believe that registration with the SAIC is necessary. None of our local operating partners or direct investment entities has renewed or completed an outdoor advertising registration, and as of December 31, 2014, none of our local operating partners or direct investment entities was required by the local SAIC to apply for such registration or was fined or penalized for failing to complete such registration. Furthermore, none of our local operating partners expects the SAIC in the future to levy any fines or sanctions related to the absence of such registration. Our local operating partners have expressed to us their willingness to comply fully with all relevant PRC rules and regulations during our conversations with them, including registering with the SAIC. Although no written assurances have been provided, our local operating partners have orally expressed their willingness to register with the SAIC in the event that the SAIC or a competent government authority determines that such registrations are required. We believe that our local operating partners will be able to apply for the appropriate registrations in the event that the SAIC or a competent government authority determines that such registrations are required. As a precaution to cope with this legal uncertainty, our direct investment entities in Haerbin and Zhengzhou registered with the local SAIC, but these registrations expired in 2008. Currently, our local operating partners have advised us that they do not believe such registrations are necessary, and none of our local operating partners plan to submit registration applications to the SAIC. If advertising on public transportation systems or other out-of-home locations is determined by a local SAIC branch to be outdoor advertising, it will take the SAIC branch as long as seven working days to review and approve an outdoor advertising registration after having accepted an application filed by our local operating partner or direct investment entity. If a registration is not effected as required by the local SAIC branch, our local operating partner or direct investment entity within the relevant jurisdiction of the local SAIC branch would be subject to a fine of up to RMB30,000, confiscation of advertising fees received and may be ordered to stop disseminating the advertisements. As a result, our business in that jurisdiction would be materially and adversely affected, which may have a material and adverse effect on our overall business.

Moreover, civil claims may be filed against us for fraud, defamation, subversion, negligence, copyright or trademark infringement or other violations due to the nature and content of the information displayed on our advertising network. If viewers find the content displayed on our advertising network to be offensive, bus and subway companies that display our content on their buses and subway platforms may seek to hold us responsible for any claims by their passengers or such companies may terminate their relationships with us.

We may encounter cyber-attacks, which may have a material and adverse effect on our business operations, financial condition and reputation.

If the security of the broadcasting network we use to send our signals is breached despite the efforts of our local operating partners to ensure the security of the content management system, and unauthorized images, text or audio sounds are broadcast through our advertising network, viewers or the PRC government may find these images, text or audio sounds to be offensive, which may subject us to civil liability or government censure. Any such cyber-attack incidents may disrupt our services and result in significant damages and have a material and adverse effect on our operations. In addition, we may suffer negative consequences, such as litigation, monetary liabilities, increased cybersecurity protection costs, lost revenues and reputational damage. If viewers of our advertising do not believe our content is reliable or secure, our business model may become less appealing to viewers in China and our advertising clients may be unwilling to place advertisements on our advertising network.

By promulgating the March 2014 Notice, the SARFT determined that regulations on radio and television advertising operations are applicable to advertising on mobile digital television, and our business and prospects could be harmed by this determination.

In 2009, SARFT promulgated Measures for Administration of Advertisement Broadcasting by Radio and Television, or the 2009 Regulation. The 2009 Regulation became effective on January 1, 2010 and is applicable to advertisement broadcasting on all radio and television stations and channels. This regulation contains a number of restrictions, including that the total time of advertisements broadcast by a single radio or television station or channel shall not exceed 12 minutes per broadcasting hour. On average, we sold 7.43, 7.94 and 6.71 advertising minutes per broadcasting hour for the years ended December 31, 2013, 2014 and 2015, respectively. Pursuant to the March 2014 Notice, mobile digital television operations must comply with the 2009 Regulation. In which case, our future revenues could be significantly impacted by any action by SARFT to enforce the 2009 Regulation with respect to the mobile digital television industry. Even though our PRC legal counsel has advised us that under relevant PRC laws and regulations, we are entitled to enforce our media contracts against our state-owned local operating partners and there is no limitation on the enforceability of those media contracts, if a regulatory enforcement action were to occur as described above, the total time of advertisements broadcast on our network would be limited. As the annual increase of our media costs is already agreed in certain of our media contracts and such contracts do not contain any provisions to decrease the media costs in the event that the total advertising time on the networks of our local operating partners were to be limited, a regulatory limitation on advertising time would limit our potential revenues, while our media costs continue to increase. Our business, advertising service revenue and operating results may thereby be materially and adversely affected.

Our failure to maintain relationships with local television stations or local mobile digital television companies would harm our business and prospects.

Our ability to generate revenues from advertising sales depends largely upon our ability to broadcast advertisements on large mobile digital television networks on mass transportation systems in urban areas. This, in turn, necessitates that we develop and maintain business relationships with local television stations, local mobile digital television companies, local governments, and mass transportation services through which we obtain programming, broadcasting and space for our mobile digital television advertising networks. As of December 31, 2015, we provided advertising services mainly through our network and supplemental subway advertising platform with approximately 88,844 digital displays in 19 cities in China, among which we have entered into exclusive advertising agency arrangements in 19 cities and direct investment arrangements in 11 cities in China. We cannot assure you that we can maintain these relationships on satisfactory terms, or at all. Our local operating partners may unilaterally terminate our agreements prior to those agreements' expiry if there are events of force majeure or if we have breached the agreements. If we fail to perform our contractual obligations, we will be in breach of our agreement and our local operating partner may unilaterally terminate our agreement. If we fail to maintain relationships with our local operating partners, advertisers may find advertising on our network unattractive and may not purchase advertising time from us, which would cause our revenues to decline and our business and prospects to deteriorate.

We do not completely control the operations of our direct investment entities; any dispute with a local television station could harm our business.

We operate in 10[1] cities through direct investment entities formed with local television stations. PRC law provides that the television stations or entities controlled by them must own no less than 51% of the equity interests in any mobile digital television operating company. We own a 49% equity interest in each of those direct investment entities, except for a direct investment entity in Shenzhen in which we own a 25% equity interest and a direct investment entity in Wuxi in which we own a 14% equity interest. Seven out of ten of our direct investment agreements provide that we have the right to appoint the general manager of the direct investment entity, who will be in charge of the entity's day-to -day operations. The right to appoint the general manager is subject to confirmation by the direct investment entity. Our local operating partners, which include the local television stations Chengdu Television Station, Shenzhen Media Group, Jilin Television Station, Dalian Television Station, Henan Cable Television Network Group Co., Ltd., Hubei Broadcast and Television General Station, Wuxi Broadcast and Television Group, Suzhou Broadcast and Television General Station, Changzhou Television Station and Ningbo Broadcast and Television Group, control broadcasting and are responsible for compliance matters. We cannot assure you that disputes will not arise between us and our local operating partners, or that any such dispute will be resolved in our favor. Further, our interests may differ from those of our local operating partners. We may have to rely on court proceedings to resolve a dispute between us and one or more of our local operating partners. Any litigation will divert our resources, may divert the attention of our senior management, and may result in a judgment against us. If any dispute between us and one or more of our local operating partners were to arise, our business operations could be harmed, and our financial condition and results of operations could be materially and adversely affected.

[1] We have entered into direct investment arrangements in 11 cities in China. Among these 11 cities, we operate in 10 cities through direct investment entities formed with local television stations. In the remaining 1 city, we operate through a direct investment entity which was not formed with the local television station.

Any failure by us or by one or more of our local operating partners to maintain existing relationships or to develop new relationships with local bus companies or subway companies would harm our business and prospects.

In most of the cities where we operate, our business relationships with local bus companies, or subway companies, or other selected operations are secured and provided by our local operating partners or our direct investment entities. Furthermore, as of December 31, 2015, our operations on the supplemental subway advertising platform in, Beijing, Chongqing, Nanjing and Shenzhen were secured by our agreements with the subway companies in these four cities, respectively. However, we cannot assure you that we and our local operating partners can maintain these relationships with the local bus companies or subway companies on satisfactory terms, or at all, or that the local bus companies or subway companies will not terminate these relationships before their expiration. If we or our local operating partners fail to maintain these relationships, advertisers may find advertising on our network unattractive and may not purchase advertising time from us, which would cause our revenues to decline and our business and prospects to deteriorate.

A significant portion of the mobile digital television networks of our direct investment entities and the digital television broadcasting infrastructure of our local operating partners currently does not meet newly adopted PRC national standards for mobile digital television operations. We will be required to spend significant capital and other resources to upgrade the existing digital television broadcasting infrastructure of our local operating partners in order to meet these new national standards, which expenditures could materially and adversely affect our business, financial condition and results of operations.

Our local operating partners have adopted three different digital television technology standards in operating their networks. In addition, our direct investment entities have installed digital television receivers based on the technology standards that our local operating partners have adopted. The National Standard of Frame Structure and Channel Code and Modulation of Digital Television Ground Broadcasting Transmission System, or the National Standard, was approved by the Standardization Administration of the PRC on August 18, 2006, and became effective on August 1, 2007. On March 27, 2006, the SARFT promulgated the *Notice Concerning Experimental Mobile Digital Television*, or the March 2006 Notice, which required all of our local operating partners to adopt the National Standard for their mobile digital television operations. In addition, the SARFT issued a notice requiring some of our local operating partners and direct investment entities to complete the adoption of the National Standard by June 30, 2010. As of August 31, 2016, the mobile digital television network of our direct investment entities and the digital television broadcasting infrastructure of our local operating partners in 13 cities (Chengdu China Digital Mobile Television Co., Ltd., Wuxi Guangtong Digital Mobile Television Co., Ltd., Ningbo China Mobile Television Development Co., Ltd., Dalian Mobile Digital Television Co., Ltd., Hubei China Mobile Television Co., Ltd., Liaoning Beifang New Media Co., Ltd., Xiamen Radio and Television Digital Media Co., Ltd., Suzhou China Mobile Television Co., Ltd., Shenzhen Mobile Television Co., Ltd., Guangzhou Pearl River Mobile Multimedia Television Co., Ltd., Changsha Guangdian Digital Mobile Television Co., Ltd., Henan Cable China Mobile Television Company Limited and Changzhou China Mobile Television Company Limited) have been upgraded to meet the National Standard, but those in another four cities (Beijing Beiguang Media Mobile Television Co., Ltd., Nanjing Guangdian Mobile Television Development Co., Ltd., Shanxi Dazhong Mobile Television Co., Ltd., and Jilin Mobile Television Co., Ltd.) have not yet completed upgrades and currently do not meet the requirements of the National Standard. As of August 31, 2016, aside from Beijing, our local operating partners in the other three of these four cities have not yet begun the upgrade process, and we and our local operating partners estimate that the upgrade process will take no more than two years to complete once it has begun. The actual amount of time required to complete the upgrade process in any given city depends on a number of factors, including the size of the mobile digital television network in that city, the equipment currently used, the resources available for the upgrade and the schedule for replacing the equipment. Our direct investment entity, Jilin Mobile Television Co., Ltd., and our local operating partners, Beijing Beiguang Media Mobile Television Co., Ltd, Nanjing Guangdian Mobile Television Development Co., Ltd., and Shanxi Dazhong Mobile Television Co., Ltd., will be required to spend significant capital and other resources, including purchasing new equipment, to upgrade their digital television broadcasting infrastructures to meet the requirements of the National Standard. These same three of our local operating partners told us the upgrade process had commenced as of April 9, 2012. Furthermore, the installation of new technology and equipment could cause disruptions to our programming, which in turn may adversely affect our reputation and business. If our local operating partners and direct investment entities do not complete the adoption of the National Standard in a timely manner or at all, or if such adoption requires substantial capital expenditures or other resources, our business, financial condition and results of operations would be materially and adversely affected.

In certain cities, we may be required to obtain approvals in order to continue including non-advertising content in our programs that are transmitted through closed circuit networks. If we are unable to continue to include non-advertising content in our programs, our business and prospects could be adversely affected.

On December 6, 2007, the SARFT issued the *Circular regarding Strengthening the Management of Public Audio -Video in Automobiles, Buildings and Other Public Areas*, or the SARFT Circular. Under the SARFT Circular, the display of audio-video programs, such as television news, films and television shows, sports, technology and entertainment, through public audio-video systems located in outdoor public places, including automobiles, airports and bus and train stations, must be approved by the SARFT. While the SARFT Circular does not apply to audio-video transmitted through digital broadcast technology, it does apply to audio-video transmitted through closed circuit networks. As a result, we may be required to obtain approvals for certain of our supplemental subway advertising operations. These supplemental subway advertising operations transmit programming through closed video networks rather than through digital broadcast technology and include operations in Beijing (Line 4 and Daxing Line), Shenzhen (Lines 2, 4 and 5, and stations in Line 1), Nanjing (Line 2 and the southern extended line for Line 1) and Chongqing.

We intend to obtain the required approvals for our non-advertising content transmitted through these operations. However, relevant government authorities in China have not yet promulgated any implementation rules on the procedure for applying for these approvals. We cannot assure you that we will obtain such approvals as required by the SARFT Circular in a timely manner, or at all. If we do not obtain the requisite approvals, we may be required to eliminate part or all of the non-advertising content transmitted through closed circuit networks on our supplemental subway platforms. As a result, we may not be able to capture the attention of our target audience due to the lack of non-advertising content, which could make our advertising network on these supplemental subway platforms less attractive, and consequently have an adverse effect on our business and prospects.

We operate in the advertising industry, which is particularly sensitive to changes in economic conditions and advertising trends.

Demand for advertising time on our network and supplemental subway advertising platform, and the according amounts spent by our clients on advertising, are particularly sensitive to changes in general economic conditions. For example, advertising expenditures typically decrease during periods of economic downturn. Advertisers may reduce the money they spend to advertise on our network and supplemental subway advertising platform for a number of reasons, including:

- a general decline in economic conditions;

- a decline in economic conditions in the particular cities where we conduct business;
- a decision to shift advertising expenditures to other available advertising media; and
- a general decline in advertising spending.

A decrease in demand for advertising media in general, and for our advertising services in particular, would materially and adversely affect our ability to generate revenues, and have a material and adverse effect on our financial condition and results of operations.

In March 2016, China pared down its economic growth target to a range of 6.5% to 7.0%. Growth in consumer spending in China have also slowed, which resulted in a corresponding slowdown in advertising spending growth. If there is another deterioration in economic conditions, our revenues, net income and results of operations could be materially adversely affected.

If advertisers or the viewing public do not accept, or lose interest in, our mobile digital television advertising network, our revenues may be negatively affected and our business may not expand or be successful.

The mobile digital television advertising market in China is relatively new and its potential is uncertain. We compete for advertising revenues with many forms of more established advertising media. Our success depends on the acceptance of our mobile digital television advertising network by advertisers and their continuing interest in this medium as part of their advertising strategies. Our success also depends on the viewing public's continued receptiveness towards our mobile digital television advertising model. Advertisers may elect not to use our services if they believe that viewers are not receptive to our network or that our network does not provide sufficient value as an effective advertising medium. Likewise, if viewers find some element of our network, such as the audio feature of monitors, to be disruptive or intrusive, mass transportation companies may decide not to install our digital displays, and advertisers may view our network as a less attractive advertising medium compared to other alternatives. In these events, advertisers may reduce their spending on our network. If a substantial number of advertisers lose interest in advertising on our network for these or other reasons, we will be unable to generate sufficient revenues and cash flows to operate our business, and our financial condition and results of operations would be materially and adversely affected.

The process of developing a relationship with a local television station or its mobile digital television operating company, and then installing digital displays on mass transportation systems can be time -consuming and requires us to commit a substantial amount of resources, from which commitment we may not be able to recognize the benefits we had anticipated.

Our success depends largely on our ability to establish relationships with local television stations and mass transportation companies. Before expanding into a new city, we identify cities that have been or are planning to launch digital mobile television operations, collect data and analyze certain development status indicators such as economic status, consumer patterns, potential market size for advertising, development of mass transportation systems (including bus and subway) and mobile digital television networks, population and the percentage of the population that takes public transportation in those cities. We also evaluate the commercial potential and our estimated revenue. In some cases, we actively pursue cooperation activities with television stations or mobile television operators based on market research, while in other cases we are contacted by those operators who have an interest in cooperating with us. The process of establishing these relationships can be lengthy as mobile digital television is a relatively new form of media and we often need to convince counterparties of the benefits of establishing a mobile digital television network on a given mass transportation system. We may be required to commit substantial resources, including but not limited to the time and effort spent by our senior management (such as our chief executive officer and chief development officer) and staff from our media development department, research work and feasibility analyses and other expenses incurred during this process, such as travelling. Despite our best efforts, counterparties ultimately may decide not to establish a mobile digital television network or may choose not to collaborate with us. If counterparties do not accept a mobile digital television network as an effective medium on mass transportation vehicles, we may not be able to grow our business or our revenues.

Once a mass transportation company has agreed to install our mobile digital television displays on their buses or other vehicles, we must invest substantial time and resources to install digital television displays before we receive any revenues from such efforts. Such investments typically include the purchase and installation of digital television displays, or expenses relating to the acquisition of interests in one or more local direct investment entities. We may experience increased distribution and operations costs during and/or after deploying our digital television displays. We also may experience delays in generating revenue, if any, due to deployment delays or difficulties in selling advertising time to new or current advertisers to be aired on these buses and other mass transportation vehicles. We may not be able to generate sufficient revenues from advertising packages on these buses and other mass transportation vehicles to offset the related costs.

Defects in local mobile digital television networks, on which we rely to conduct our advertising operations, could result in unexpected expenses and losses of advertisers and in numbers of potential viewers.

Our advertising operations rely on a combination of digital television displays and the broadcasting network infrastructure of local television stations. This combined infrastructure is complex and must meet stringent quality and reliability requirements. Due to the complexity of this infrastructure and the impracticability of testing all possible operating scenarios prior to its implementation, certain errors or defects may not be detectable. The existence of errors or defects in this combined infrastructure may result in a loss of, or delay in, acceptance of our advertising services by advertisers and public viewers. In addition, mass transportation companies could cancel their arrangements with our direct investment entities or our local operating partners if their respective networks experience sustained downtime. Any errors or defects in the local mobile digital television networks which we use to conduct our advertising operations could damage our reputation, result in lost revenue, divert development resources, and increase service and support costs and warranty claims.

When our local mobile digital television advertising networks reach saturation in the cities where we operate, we may not be able to grow our revenue base or satisfy all of our advertisers' needs, which could hamper our ability to generate higher levels of revenues over time.

Air time allocated to programming and advertising on our mobile digital television networks is generally specified in the agreements we have with our local operating partners. In cities where advertisers' demand for advertising time is high, such as Beijing, Guangzhou, Shenzhen and Nanjing, our local mobile digital television networks may reach saturation, meaning that we cannot sell additional advertising time without increasing the proportion of advertisements to programs. If our local networks reach saturation in any particular city, we will be forced to request additional advertising time from our local operating partners or increase our advertising rates to increase our revenues. However, we cannot assure you that our local operating partners will grant our requests, and advertisers may not be willing to accept rate increases or a decrease in the amount of programming, which decrease in turn may decrease the audience's attentiveness to their advertisements. If we are unable to obtain longer advertising time on our network, or the rates for advertising time in saturated cities, we may be unable to generate higher levels of revenues over time.

If we fail to attract advertisers to our network, we would be unable to maintain or increase our advertising prices, which would negatively affect our ability to grow revenues.

The actual prices we can charge advertisers for time on our mobile digital television network and supplemental subway advertising platform depend on the size and quality of our networks and on advertisers' demand for advertising time. Advertisers choose to advertise on our network in part because of the network's size and the desirability of the cities where we operate. If we fail to diversify advertising channels, to maintain or increase the number of cities in our network, or to solidify our brand name and reputation as a quality provider of advertising services, advertisers may not be willing to purchase time on our network or to pay the advertising fees we need to generate in order to remain profitable. Any significant decrease in demand could cause us to lower the prices we charge for advertising time on our network and could negatively affect our ability to increase revenues in the future.

We generally do not have exclusive or long-term agreements with our advertising clients and we may lose their engagement if they are not satisfied with our services or for other reasons.

As is customary in the advertising industry in China, we generally do not have exclusive or long -term agreements with our advertising clients. A majority of our agreements have a term of less than one year. Accordingly, we must rely on high -quality services, industry reputation, our network size and coverage, and favorable pricing to attract and retain advertising clients. There is no assurance, however, that we will be able to maintain our relationships with current and/or future clients. In particular, we derive a substantial percentage of our revenues from a small number of advertising clients. For example, our top ten advertising clients in the aggregate accounted for 33.5% of our total revenues for the year ended December 31, 2015. These and our other advertising clients may elect to terminate their relationships with us if they are not satisfied with our services. We have lost client accounts in the past and may lose client accounts in the future. If a substantial number of our advertising clients choose to discontinue their purchases of advertising time from us, we would not be able to generate sufficient revenues and cash flows to operate our business, and our results of operations and financial condition would be materially and adversely affected.

We face significant competition, and if we do not compete successfully against new and existing competitors, we may lose our market share, and our profitability may be adversely affected.

We compete with other mobile digital television advertising companies and other new media advertising companies in China. We compete for advertising clients primarily on the basis of our network size and coverage, locations, prices, range of services and brand name. We also face competition from other mobile digital television advertising network operators for access to the most desirable cities and mass transportation systems in China. Our major competitors include other companies that operate out-of-home advertising media networks such as Focus Media Information Technology Co., Ltd., AirMedia Group Inc., Towona Mobile Digital Co., Ltd. and Bus Online Media Co., Ltd. We also compete for overall advertising spending with other advertising media, such as television, mass transportation posters, billboards, newspapers, radio, magazines and the Internet. Some of our competitors operate digital television advertising networks installed on mass transportation systems primarily playing prerecorded content saved on compact flash drives or DVDs.

Many smaller mobile digital television companies operate in cities outside of our network pursuant to exclusive agreements, and we expect to encounter barriers-to -entry as we attempt to expand our network into these cities. For example, in Shanghai, Shanghai Oriental Pearl Mobile Television Inc. operates the largest mobile digital television advertising network using broadcasting technology. As a result, we face barriers-to -entry to expand our network on the bus platform in Shanghai. In addition, we will face barriers-to -entry as we attempt to expand our out-of-home advertising network to different media platforms, such as in -building displays or large outdoor LED displays, because other companies have already signed exclusive placement agreements to secure the most desirable locations.

Further, we also may face competition from new entrants into the mobile digital television advertising sector. As is customary in the advertising industry in China, we generally do not have exclusive arrangements with our advertising clients and we do not have exclusive arrangements with the local operating partners in a number of cities where we operate. Therefore, we cannot assure you that we will succeed in increasing or maintaining our market share.

Increased competition could reduce our operating margins and profitability and result in a loss of market share. Some of our existing and potential competitors may have competitive advantages, such as significantly greater financial, marketing or other resources, and others may successfully mimic and adopt our business model. Moreover, increased competition will provide advertisers with a wider range of media and advertising service alternatives, which could lead to lower prices and decreased revenues, gross margins and profits. We cannot assure you that we will be able to compete successfully against new or existing competitors.

Several major cities in China have accounted, and will continue to account, for a substantial majority of our revenues. Our business and financial condition are particularly susceptible to general economic conditions and to the relationships we have with our local operating partners in these cities.

A substantial majority of our revenues currently derive from our operations in China's four major cities: Beijing, Shanghai, Guangzhou and Shenzhen. Our advertising revenue in Beijing, Guangzhou and Shenzhen in the aggregate accounted for 62.9% of our total advertising service revenue in 2009. Following the completion of our acquisition of Digital Media Group, we expanded our network to the subway platform in Shanghai and additional subway lines in Beijing and Shenzhen. These four major cities in the aggregate accounted for 65.8%,72.4% and 67% of our total advertising service revenue in 2010, 2011 and 2012, respectively, among which 15.0%,14.2%, 9.7% were from our subway platform in Shanghai. On September 1, 2012, we terminated our exclusive advertising agency agreements with our local operating partner in Shanghai. On September 1, 2014 we terminated our exclusive advertising agency agreements with one of our local operating partners in Beijing, Beijing Beiguang Metro Media Co., Ltd., responsible for our networks in Beijing subway lines 1, 2, 13 and the Batong Line. On November 1, 2014 we terminated our exclusive advertising agency agreements with one of our local operating partners in Guangzhou, Guangzhou Metro Television Co., Ltd., responsible for our networks in the subway lines in Guangzhou. Termination of exclusive advertising agreements with our local operating partners in respect of subways in Shanghai, Beijing and Guangzhou allows us to optimize our cost structure by removing the obligation previously borne by us to spend fixed amounts on media costs with certain of these local operating partners. After terminating these agreements, we changed our business model in these three major media platforms from that of an exclusive agency contract to a non-exclusive contract so that we can continue to sell our advertising products through these media platforms. Our advertising revenue deriving from all of the subway lines in Beijing and Guangzhou in which we operate in the aggregate accounted for 26%, 28.0% and 20.6% of our total advertising service revenue in 2012, 2013 and 2014, respectively. In 2015, we generated 26.6% of our total advertising revenue in Beijing, Guangzhou and Shenzhen through our exclusive advertising agency agreements. We expect in the future to generate a substantial portion of our revenues from these three cities. If any of these cities experiences an event negatively affecting its mobile digital television advertising industry, such as a serious economic downturn, a decline in the use of mass transportation systems, changes in government policy, a natural disaster or changes in advertising preferences, our mobile digital television network, our supplemental subway advertising platform and our ability to generate adequate cash flow would be materially and adversely affected. In addition, if we fail to maintain our relationships with our remaining local operating partners in these cities (i.e. Beijing Beiguang Media Mobile Television Co., Ltd., Guangzhou Pearl River Mobile Multimedia Television Co., Ltd. and Shenzhen Metro Co., Ltd.), our business, financial condition and results of operations would be materially and adversely affected.

Our quarterly operating results are difficult to predict and may fluctuate significantly from period to period in the future.

Our quarterly operating results are difficult to predict and may fluctuate significantly from period to period in the future based on the seasonality of consumer spending and advertising trends in China or other factors. Factors that are likely to cause our operating results to fluctuate include:

- our ability to maintain and increase sales to existing advertising clients, to attract new advertising clients and to satisfy our clients' demands;
- the frequency of our clients' advertisements on our network;
- the price we charge for our advertising time or changes in our pricing strategies or in the pricing strategies of our competitors;
- the effects of strategic alliances, potential acquisitions and other business combinations, and our ability to successfully and timely integrate them into our business;
- technical difficulties, system downtime or interruptions;
- changes in government regulations with respect to the advertising industry; and
- economic and geopolitical conditions in China and elsewhere.

Many of the factors mentioned above are beyond our control, making our quarterly results difficult to predict, which could cause the trading price of our ADSs to decline below the expectations of our investors. You should not rely on our operating results for prior periods as an indication of our future results. If our revenues for a particular quarter are lower than expected, we may not be able to reduce our operating expenses for that quarter by a corresponding amount, which would harm our operating results for that quarter relative to our operating results from other quarters.

We depend substantially on the continuing efforts of our executive officers, and our business and prospects may be severely disrupted if we lose their services.

Our future success largely depends on the continued services of key members of our management team. In particular, our future success depends upon the continued service of Limin Li, our co-founder, chairman, chief executive officer, and largest shareholder. We rely on his experience and knowledge of our business operations, and in particular, his business vision, management skills and working relationships with our employees, our other major shareholders, many of our clients and our local operating partners. We have granted share options and/or restricted shares to executive officers to align those officers' interests with ours. However, we face competition for personnel from other mobile digital television advertising companies or general advertising companies and other organizations. Such competition could cause us to offer higher compensation and other benefits in order to attract and retain these individuals, which could materially and adversely affect our financial condition and results of operations. Furthermore, as we continue to expand our operations and develop new products, we will need to continue to attract and retain experienced managers. We may not be able to attract or retain the personnel we require to achieve our business objectives. Any failure on our part to do so could severely disrupt our business and prospects. The process of hiring qualified personnel also is often lengthy. If our recruitment and retention efforts are unsuccessful in the future, it may be more difficult for us to execute on our business strategy.

We do not maintain key-person insurance for members of our management team. If we lose the services of any member of our senior management, we may not be able to locate suitable or qualified replacements, and may incur additional expenses to recruit and train new personnel, which could severely disrupt our business and prospects. In addition, if any of our executive officers were to join a competitor or were to form a competing company, our marketing and sales efforts could be adversely affected and we may lose some of our customers. Although each of our executive officers has entered into an employment agreement with us that contains confidentiality and non-compete provisions, disputes may arise between our executive officers and us and we cannot assure you, in light of uncertainties associated with the PRC legal system, that any of these provisions could be enforced in accordance with their terms.

We may not be able to recruit and retain the key personnel we need generally, and sales and marketing personnel in particular, which could have material and adverse effects on our business, financial condition and results of operations.

Our success depends on our ability to attract and retain senior managers, as well as sales, marketing, engineering and other key personnel. Because of intense competition for these employees, we may not be able to attract and retain personnel. If we are unable to retain our existing personnel, or to attract, train, integrate or motivate additional qualified personnel, our growth may be restricted. The loss of any of our key employees could slow our programming, distribution and sales efforts or harm the perceptions of advertisers, venue providers and investors. Our senior executives may have to divert their attention to recruiting replacements for key personnel.

In particular, we depend on our sales and marketing team to sell advertising time. We market our advertising services directly to advertisers, as well as to advertising agencies. As of December 31, 2015, we had 208 dedicated sales and marketing personnel to support our sales and marketing efforts. We depend on our sales staff to market our services to existing and potential clients and to cover a large number of clients in a wide variety of industries. We need to further increase the size of our sales and marketing staff as our business continues to grow. If we are unable to hire, retain, integrate or motivate our current or new marketing personnel, our sales and marketing efforts may be materially impaired and our business, financial condition and results of operations could be materially and adversely affected.

We may be subject to intellectual property infringement claims, which may force us to incur substantial legal expenses and could potentially result in judgments against us, which may materially disrupt our business.

We cannot be certain that our advertising content, entertainment content or other aspects of our business do not or will not infringe upon patents, copyrights or other intellectual property rights held by third parties. Although we are not currently aware of any such claims, we may become subject to legal proceedings and claims from time to time relating to the intellectual property of others in the ordinary course of our business. If we are found to have violated or otherwise to have infringed upon others' intellectual property rights, we may be enjoined from using such intellectual property, and we may incur licensing fees or be forced to develop alternatives. In addition, we may incur substantial expenses in defending against third party infringement claims, regardless of the merits of those claims. Successful infringement or licensing claims against us may result in substantial monetary liabilities, which may materially and adversely disrupt our business.

If we are unable to adapt to evolving advertising trends and preferences of advertisers and viewers, we will not be able to compete effectively.

The market for mobile digital television advertising continuously requires us to identify new advertising trends and the technology needs of advertisers and public viewers, which may necessitate the development of new features and enhancements for our network. The majority of our displays use LCD screens. We currently broadcast programs and advertisements on our network through the television broadcasting network of our local operating partners or their affiliated television stations. In the future, subject to relevant PRC laws and regulations, we may use other technologies available in the market. We may be required to incur development and acquisition costs in order to keep pace with new technology needs, but we may not have the financial resources necessary to fund and implement future technological innovations or to replace obsolete technology. Furthermore, we may fail to respond in a timely fashion to changing technology needs. If we cannot succeed in developing and introducing new features on a timely and cost-effective basis, advertisers' demand for our advertising time may decrease and we may not be able to compete effectively or to attract advertising clients, which would have a material and adverse effect on our business and prospects.

We may need additional capital and we may not be able to obtain it on acceptable terms, or at all, which could adversely affect our liquidity and financial position.

We may need additional cash resources due to changes in the conditions of our business, acquisitions or other future developments. If readily available sources are inadequate to satisfy our cash requirements, we may seek to sell additional equity or debt securities or to obtain a credit facility. The sale of convertible debt securities or additional equity securities could result in dilution to our shareholders or a decrease in the price of our ADSs. The incurrence of additional debt would result in increased debt service obligations and could result in operating and financing covenants that would restrict our operations, liquidity, or ability to distribute dividends.

Our ability to obtain additional capital on acceptable terms is subject to a variety of uncertainties, including:

- investors' perception of, and demand for, securities of alternative advertising media companies;
- conditions of the U.S. and other capital markets in which we may seek to raise funds;
- our future results of operations, financial condition and cash flow;

- PRC governmental regulation of foreign investment in advertising service companies in China;
- PRC governmental regulation of the mobile digital television industry;
- economic, political and other conditions in China; and
- PRC governmental policies relating to foreign currency borrowings.

We cannot assure you that financing will be available in amounts or on terms acceptable to us, if at all. Any failure by us to raise additional funds on terms favorable to us could have a material adverse effect on our liquidity and financial condition. Without additional capital, we may not be able to:

- upgrade our mobile digital television advertising network;
- further develop or enhance our services;
- acquire necessary technologies or businesses;
- expand our operations, including the reach of our network;
- hire, train and retain employees;

- market our programs, services and products; or
- respond to competitive pressures or unanticipated capital requirements.

Acquisition of other companies or assets of other companies is a part of our growth strategy, and such acquisitions may expose us to significant business and financial risks, including exposure to contingent acquisition consideration, which may adversely affect our results of operations and financial condition.

One of our strategies is to pursue acquisition opportunities which are complementary to our business. However, we cannot assure you that we will be able to identify and secure suitable acquisition opportunities. Our ability to consummate and integrate effectively any future acquisitions on terms that are favorable to us may be limited by a number of factors such as the number of attractive acquisition targets, internal demands on our resources and, to the extent necessary, our ability to obtain financing on satisfactory terms, if at all, for larger acquisitions.

Moreover, if an acquisition candidate is identified, we may fail to enter into an acquisition or purchase agreement for such acquisition candidate on commercially reasonable terms, or at all. The negotiation and completion of potential acquisitions, whether or not ultimately consummated, also could require significant diversions of our time and resources and potentially may disrupt our existing business. Furthermore, we cannot assure you that we will be able to integrate our acquisitions successfully into our operations or that the anticipated synergies of future acquisitions will actually materialize. In addition, acquisitions could result in the incurrence of additional debt, costs and contingent liabilities. For example, in connection with our acquisitions of six advertising agency businesses in China completed in 2008, we were required to pay additional consideration if the acquired businesses met specified performance targets in the years from 2008 through 2010. See "Item 5. Operating and Financial Review and Prospects — B. Liquidity and Capital Resources — Investing Activities" for more details regarding this performance-based consideration. In addition, on April 30, 2014, we issued the Notes to the Former DMG Shareholders to settle unpaid consideration for our acquisition of Digital Media Group. We expect to redeem the Notes following the completion of a pre-determined repayment schedule over a period of six years. See "Item 5. Operating and Financial Review and Prospects — B. Liquidity and Capital Resources — Investing Activities" for more details. Future acquisitions also may expose us to potential risks, including risks associated with:

- the integration of new operations, services and personnel;
- unforeseen or hidden liabilities;
- diversions of financial or other resources from our existing businesses and technologies;

- our inability to generate sufficient revenues to recover costs and expenses of acquisitions; and

- the potential loss of, or harm to, relationships with our employees or customers.

Any of the above risks could significantly disrupt our ability to manage our business, and could materially and adversely affect our business, financial condition and results of operations.

Any failure to protect our intellectual property rights could have a negative impact on our business.

We believe that our brand and trademarks are critical to our success. The success of our business depends in part upon our continued ability to use our brand and trademarks to increase awareness of, and further develop, our brand. The unauthorized reproduction of our trademarks could diminish the value of our brand and its market acceptance, competitive advantages or goodwill.

It is difficult to monitor and prevent against the unauthorized use of our intellectual property. The measures we take to protect our brand and trademarks may not be adequate to prevent third parties from using them without our authorization. Furthermore, applications of laws governing intellectual property rights in China and abroad is uncertain and evolving, and could subject us to substantial risks. If we are not able to protect our brand and trademarks adequately, we may lose some or all of our rights to use these intellectual property assets and our business may suffer materially. Furthermore, unauthorized use of our brand, trade names or trademarks could harm our reputation or cause advertisers to confuse our brand with that of others. If our brand recognition decreases, we may lose advertisers and fail to execute successfully on our expansion strategies, and our business, results of operations, financial condition and prospects could be materially and adversely affected.

In managing our operations we rely on computer software and hardware systems, the failure of which could adversely affect our business, financial condition and results of operations.

We depend upon computer software and hardware systems to support our network and manage and monitor programs on the network. In addition, we rely on our computer hardware for the storage, delivery and transmission of data on our network. Any system failure that interrupts the input, retrieval or transmission of data could disrupt our normal operations. Any failure in our computer software or hardware systems could decrease our revenues and harm our relationships with advertisers and consumers, which in turn could have a material and adverse effect on our business, financial condition and results of operations.

The insurance coverage which we maintain in respect of our operations in China is limited.

China’s insurance industry is still in the early stages of its development. The insurance products offered by insurance companies in China are limited. We have determined that the risks to our business of disruption or liability from continuing operations, any loss of or damage to our fixed assets, including our equipment and office furniture, the cost of insuring for these risks, and the difficulties associated with acquiring such insurance on commercially reasonable terms, make it impractical for us to maintain such insurance. As a result, we do not have any business liability, disruption, litigation or property insurance coverage for our operations in China, except for insurance on some company-owned vehicles. Any uninsured occurrence of loss or damage to fixed assets, or litigation or business disruption may result in the incurrence of substantial costs and the diversion of resources, which could have an adverse effect on our operating results.

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

Based on our financial statements, relevant market data, the composition of our income and valuation of our assets, including goodwill, we do not believe that we were a PFIC for the year ended December 31, 2015 , although there can be no assurance in this regard. However, if we were to become a PFIC, such characterization could result in adverse U.S. tax consequences to you if you are a U.S. investor. For example, if we were to become a PFIC, our U.S. investors would become subject to increased tax liabilities under U.S. tax laws and regulations and would become subject to burdensome reporting requirements.

If we are a PFIC for any taxable year during which a U.S. investor holds our ADSs or common shares, unless the U.S. investor made a mark-to -market election, the U.S. investor would be subject to special tax rules with respect to any “excess distribution” received and any gain realized from a sale or other disposition, including a pledge, of those ADSs or common shares. Distributions received in a taxable year that are greater than 125% of the average annual distributions received during the shorter of the three preceding taxable years or a U.S. investor's holding period for the ADSs or common shares will be treated as excess distributions. Under these special tax rules:

- the excess distribution or gain will be allocated ratably over the U.S. investor's holding period for the ADSs or common shares,

- the amount allocated to the current taxable year, and any taxable year prior to the first taxable year in which we were a PFIC, will be treated as ordinary income, and

- the amount allocated to each other year will be subject to tax at the highest tax rate in effect for that year and the interest charge generally applicable to underpayments of tax will be imposed on the resulting tax attributable to each such year.

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In addition, non-corporate U.S. investors will not be eligible for reduced rates of taxation on any dividends received from us if we are a PFIC in the taxable year in which such dividends are paid or in the preceding taxable year.

The determination of whether or not we are a PFIC is made on an annual basis and depends on the composition of our income and assets from time to time. Specifically, we will be classified as a PFIC for U.S. tax purposes if either: (i) 75% or more of our gross income in a taxable year is passive income, or (ii) 50% or more of the value (determined on a quarterly average) of our assets (including cash) is attributable to assets that produce or are held for the production of passive income (which includes cash). The calculation of the value of our assets will be based, in part, on the then-prevailing market value of our ADSs, which is subject to change. We cannot assure you that we will not be a PFIC for 2015 or any future taxable year. See "Item 10. Additional Information — E. Taxation — Material United States Federal Income Tax Consequences."

We may be, or may be joined as, a defendant in litigation brought against our clients or our local operating partners by third parties, governmental or regulatory authorities, consumers or competitors, which could result in judgments against us and could materially disrupt our business.

From time to time, we may be, or may be joined as, a defendant in litigation brought against our clients or our local operating partners by third parties, governmental or regulatory authorities, consumers or competitors. These actions could involve claims alleging, among other things, that:

- advertising claims made with respect to our clients' products or services are false, deceptive or misleading;
- our clients' products are defective or injurious and may be harmful to others;
- marketing, communications or advertising materials created for our clients infringe on the proprietary rights of third parties; or
- our relationships with our local operating partners violate or interfere with the contractual relationships or rights of third parties.

Any such litigation could result in judgments being issued against us that would materially and adversely affect our business operations.

Risks Related to Our Corporate Structure

If the PRC government determines that the agreements establishing the structure for operating our China business do not comply with applicable PRC laws, rules and regulations, we could be subject to severe penalties including being prohibited from continuing our operations in the PRC.

The PRC government requires any foreign entities that invest in the advertising services industry to have at least two years of direct operations in the advertising industry outside of China. We have not directly operated any advertising business outside of China and therefore, we currently do not qualify under PRC regulations to invest in the advertising services industry. In addition, the March 2006 Notice prohibits foreign investment in any mobile digital television company operating in China. We are a Cayman Islands corporation and a foreign legal person under PRC law. Accordingly, our subsidiary, China Digital Technology (Shenzhen) Co., Ltd., or CDTC, which is a wholly -owned foreign enterprise established by us on March 9, 2006, is currently ineligible to apply for the licenses required to provide advertising services directly in China. CDTC is an intermediate holding company that consolidates the operating results generated by our consolidated affiliated entities in a manner that complies with PRC rules and regulations. CDTC is authorized to engage in businesses such as, but not limited to, technical development and technical consultancy services in connection with digital visual and audio equipment. Our advertising business is currently provided pursuant to contractual arrangements with our consolidated affiliated entities in China, which hold the requisite licenses to provide advertising services in China. One of our consolidated affiliated entities, VisionChina Media Group Company Limited, or VisionChina Media Group, is currently owned by Limin Li and Yanqing Liang. We do not have any equity interest in VisionChina Media Group, but we receive economic benefits from it through various contractual arrangements. See “Item 7. Major Shareholders and Related Party Transactions — B. Related Party Transactions.” In January 2010, we completed our acquisition of Digital Media Group, which operated and continues to operate its advertising business through its consolidated affiliated entity in China, Beijing Eastlong Advertising. Beijing Eastlong Advertising is currently owned by Qijun Men and Haifeng Wang. Digital Media Group does not have any equity interest in Beijing Eastlong Advertising, but receives economic benefits from it and bears economic risks of it through various contractual arrangements. Our consolidated affiliated entities and their subsidiaries directly operate our advertising network, enter into direct investment and exclusive and non-exclusive advertising agency agreements, and sell advertising time to our clients. We have been, and expect to continue to be, dependent on our consolidated affiliated entities and their subsidiaries to operate our advertising business.

There are substantial uncertainties regarding the interpretation and application of current and future PRC laws, rules and regulations, including but not limited to the laws, rules and regulations governing the validity and enforcement of our contractual arrangements with our consolidated affiliated entities. Although we have been advised by our PRC counsel that the structure for operating our business in China (including our corporate structure and contractual arrangements with our consolidated affiliated entities and their shareholders) complies with all applicable PRC laws, rules and regulations, and does not violate, breach, contravene or otherwise conflict with any applicable PRC laws, rules or regulations, we cannot assure you that the PRC regulatory authorities will not take a view that is contrary to the above opinion of our PRC counsel and determine that our corporate structure and contractual arrangements violate PRC laws, rules or regulations. We have been further advised by our PRC counsel that if the PRC government determines that the agreements that establish the structure for operating our PRC advertising businesses do not comply with applicable restrictions on foreign investment in the advertising industry or the mobile digital television industry, we may be subject to severe penalties including, among other things, being prohibited from continuing our operations in the PRC.

If we, our consolidated affiliated entities or any of their current or future subsidiaries, our direct investment entities, or our local operating partners are found to be in violation of any existing or future PRC laws or regulations, or fail to obtain or maintain any of the permits or approvals required to comply with existing or future PRC laws or regulations, relevant PRC regulatory authorities, including the SAIC and the SARFT, would have broad discretion to handle and address such violations, which discretion could include taking any of the following actions:

- revoking the business and/or operating licenses of such entities;
- discontinuing or restricting the conduct of any transactions among our consolidated affiliated entities, our PRC subsidiaries and affiliated entities;
- imposing fines, confiscating income generated by our consolidated affiliated entities or by us, or imposing other requirements with which we, our consolidated affiliated entities, our PRC subsidiaries or affiliated entities may not be able to comply;
- shutting down the network of our consolidated affiliated entities; or
- requiring us, our PRC subsidiaries or affiliated entities to restructure our ownership structure or operations.

The imposition of any of these penalties could result in a material and adverse effect on our ability to conduct our business, on our financial condition and results of operations.

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We rely on contractual arrangements with our consolidated affiliated entities in China and with the holders of their equity interests in order to operate our business. These contractual arrangements may not be as effective as owning a controlling equity interest for purposes of enabling us to control, or to derive economic benefits from, the operations of these consolidated affiliated entities.

In the past we have relied, and in the future we likely will continue to rely, on contractual arrangements with VisionChina Media Group, one of our consolidated affiliated entities in China, and with its shareholders to operate our advertising business. In January 2010, we completed our acquisition of Digital Media Group, which operated, and likely will continue to operate, its advertising business through contractual arrangements with Beijing Eastlong Advertising and the holders of its equity interests.

These contractual arrangements may not be as effective as owning a controlling equity interest would be for the purposes of enabling us to control, or to derive economic benefits from, the business operations of our consolidated affiliated entities and their subsidiaries. If we had direct ownership of our consolidated affiliated entities and their subsidiaries, we would be able to exercise our rights as a shareholder (i) to effect changes in the board of directors of those entities, which in turn could effect changes, subject to any applicable fiduciary obligations, at the management level of those entities, and (ii) to derive economic benefits from the operations of our consolidated affiliated entities and their subsidiaries by causing them to declare and pay dividends. However, pursuant to our contractual arrangements currently in force, as a legal matter, if our consolidated affiliated entities and their subsidiaries or any of the respective holders of their equity were to fail to perform their, his or her respective obligations under these contractual arrangements, we may have to incur substantial costs and resources to enforce such arrangements, and to rely on legal remedies available to us under PRC law, including seeking specific performance or injunctive relief, and claiming damages. We cannot assure you that any of the legal remedies available to us under PRC law will be effective for the purpose of enforcing these contractual arrangements. For example, if equity holders of VisionChina Media Group were to refuse to transfer their equity interests in VisionChina Media Group to us or to one or more persons whom we designate when we exercise the purchase option pursuant to these contractual arrangements, we may have to take legal action to compel them to fulfill their contractual obligations, and we cannot guarantee that such legal action would be successful in this regard.

Due to regulatory restrictions on foreign investment in our industry in the PRC, we expect to continue to depend upon our contractual arrangements with our consolidated affiliated entities, their subsidiaries, and holders of their equity interests in order to operate our advertising business in China. If (i) applicable PRC authorities were to invalidate these contractual arrangements as being in violation of PRC laws, rules and regulations, (ii) our consolidated affiliated entities or their subsidiaries were to terminate these contractual arrangements, or (iii) our consolidated affiliated entities or their subsidiaries were to fail to perform their obligations under these contractual arrangements, we would not be able to continue operating our business in China or to derive economic benefits from that business, and the value of your ADSs would substantially decrease. Pursuant to the terms of each of (i) the technology and management services agreement entered into on February 15, 2007 by and between CDTC and VisionChina Media Group, (ii) the domain name license agreement entered into on February 15, 2007 by and between CDTC and VisionChina Media Group, (iii) the cooperation agreement entered into on February 22, 2005 by and between Beijing Eastlong Technology and Beijing Eastlong Advertising, (iv) the supplemental agreement entered into on April 2, 2014 by and among CDTC, Limin Li, Yanqing Liang and VisionChina Media Group, and (v) each of the respective loan agreements, equity pledge agreement and option agreements to which each of CDTC and Beijing Eastlong Technology, respectively, is a party, if CDTC or Beijing Eastlong Technology, as applicable, were to breach its representations or warranties or any of the terms of the agreement, then the nondefaulting party, i.e. the relevant consolidated affiliated entity or the shareholders thereof, as applicable, would be entitled to terminate the agreement. However, VisionChina Media Group and Beijing Eastlong Advertising do not have any substantive kick-out rights available to them under any of the contractual arrangements. Furthermore, if we fail to renew these contractual arrangements upon their expiration, we would not be able to continue operating our business unless applicable PRC laws, rules and regulations were to allow us to operate advertising businesses directly in China.

In addition, through an Equity Pledge Agreement, our consolidated entities encumber all or part of their assets with liens. See "Item 7. Major Shareholders and Related Party Transactions — B. Related Party Transactions — Agreements that Provide Us Effective Control over VisionChina Media Group, Beijing Eastlong Advertising and Their Respective Subsidiaries." If our consolidated affiliated entities or all or part of their assets become subject to liens or rights of third-party creditors, we may not be able to continue some or all of our business activities, which could severely disrupt our business and have material and adverse effects on our financial condition and results of operations. If one of our consolidated affiliated entities undergoes a voluntary or involuntary liquidation proceeding, its equity holders or unrelated third-party creditors may claim rights to some or all of the assets of that consolidated affiliated entity, thereby hindering our ability to operate our business and to derive economic benefits from that consolidated affiliated entity and its subsidiaries. Such a hindrance could materially and adversely affect our business, our ability to generate revenues and the market price of your ADSs.

The contractual arrangements with our consolidated affiliated entities are governed by PRC law and provide for the resolution of disputes either through arbitration or litigation in the PRC. Accordingly, these contracts would be interpreted in accordance with PRC law and any disputes would be resolved in accordance with PRC legal procedures. The PRC legal system is not as developed as that of some other jurisdictions, such as the United States. As a result, uncertainties in the PRC legal system could limit our ability to enforce these contractual arrangements. If we are unable to enforce these contractual arrangements, we may not be able to exercise effective control over our operating entities, and we may be precluded from operating our business, which would have a material and adverse effect on our financial condition and results of operations.

If VisionChina Media Group or Beijing Eastlong Advertising fails to honor its obligations under contractual arrangements with us, our advertising business may be severely and adversely affected.

PRC laws and regulations prohibit or restrict foreign ownership of media content and advertising businesses. To comply with these restrictions on foreign ownership, we invest in ventures with local television stations and provide advertising services on our out-of-home digital television networks in the PRC through VisionChina Media Group and Beijing Eastlong Advertising, both of which are PRC legal entities. VisionChina Media Group was established by our co-founders, and Beijing Eastlong Advertising was established by Haifeng Wang and Qijun Men. The registered capital of VisionChina Media Group was paid in by us or CDTC through a loan extended to VisionChina Media Group's co-founders. CDTC has entered into certain exclusive agreements with VisionChina Media Group, which agreements obligate us to absorb a majority of the risk of loss from VisionChina Media Group's activities and entitle us to receive a majority of its residual returns. In addition, we, through CDTC, have entered into certain agreements with the two individuals, including a loan agreement described above for the amount of VisionChina Media Group's paid-in registered capital, an option agreement to acquire the equity interests in VisionChina Media Group at such future time as when PRC laws would permit us to hold those equity interests, and a share pledge agreement with respect to the shares in VisionChina Media Group held by its co-founders. Any dispute arising from these agreements is to be resolved through PRC court proceedings. Similarly, the registered capital of Beijing Eastlong Advertising was paid in by Beijing Eastlong Technology Development Co., Ltd., or Beijing Eastlong Technology, through loans extended to its equity holders. Beijing Eastlong Technology became our wholly owned subsidiary subsequent to our acquisition of Digital Media Group in 2010. Beijing Eastlong Technology has entered into certain exclusive agreements with Beijing Eastlong Advertising, which agreements obligate us to absorb a majority of the risk of loss from Beijing Eastlong Advertising's activities and entitle us to receive a majority of its residual returns. In addition, Beijing Eastlong Technology has entered into certain agreements with the two individual holders of its equity, including a loan agreement described above for the amount of paid-in registered capital of Beijing Eastlong Advertising, and an option agreement to acquire all of the equity interests in Beijing Eastlong Advertising at such future time as when PRC laws would permit us to hold those equity interests, and a share pledge agreement with respect to the shares in Beijing Eastlong Advertising held by Qijun Men and Haifeng Wang. Any dispute arising from these agreements is to be resolved through PRC court proceedings. The major difference between arbitration and court proceedings in the PRC is that PRC arbitral judgments are binding, enforceable and may not be appealed, whereas the judgment of a PRC court may be appealed. According to the *PRC Civil Procedure Law*, each party to a dispute adjudicated by the trial of first instance is entitled to appeal within the statutory time limit, and the relevant court shall hear all appeals once the case has been filed in the second instance. Before appeals are heard, the trial level people's court must serve copies of the appellate petition on the respondent within five days of receiving said petition, and the respondent must submit its written defense within 15 days of receiving the appellate petition. Failure by the respondent to submit a defense will not prevent the case from being tried by the appellate people's court. In trying a case appealed from the judgment of a lower court, the appellate people's court must issue its final judgment within three months after the date on which the case was filed in the second instance; in trying a case appealed from the order of a lower court, the appellate people's court must issue a final order within 30 days after the date on which the case was filed in the second instance. See "Item 7. Major Shareholders and Related Party Transactions — B. Related Party Transactions" for a detailed description of these contractual arrangements.

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Based on these contractual arrangements, we believe that VisionChina Media Group and Beijing Eastlong Advertising should each be considered as a VIE, under FASB ASC 810, *Consolidation*, because investors in the equity interests of each of VisionChina Media Group and Beijing Eastlong Advertising do not possess a controlling financial interest in these two companies; rather, we, through CDTC and Beijing Eastlong Technology, are the primary beneficiary of VisionChina Media Group and Beijing Eastlong Advertising. We and CDTC together hold all of the variable interests in VisionChina Media Group, and we and CDTC together have been determined to be the entities most closely associated with VisionChina Media Group. We and Beijing Eastlong Technology together hold all of the variable interests in Beijing Eastlong Advertising, and we and Beijing Eastlong Technology together have been determined to be the entities most closely associated with Beijing Eastlong Advertising. Therefore, we are the primary beneficiary of both VisionChina Media Group and Beijing Eastlong Advertising. Accordingly, we consolidate the economic benefits we receive from each of VisionChina Media Group and Beijing Eastlong Advertising into our financial results.

These contractual arrangements enable us to exercise effective control over VisionChina Media Group and its subsidiaries, and to receive substantially all of the economic benefits of VisionChina Media Group and its subsidiaries for a remaining period of 17 years. If VisionChina Media Group fails to comply with its obligations under the foregoing contractual arrangements, such breach may have a material and adverse effect on our financial condition and results of operations. Furthermore, these contractual arrangements enable us to exercise effective control over Beijing Eastlong Advertising and its subsidiaries, and to receive substantially all of the economic benefits of Beijing Eastlong Advertising and its subsidiaries for a remaining period of 10.2 years . If Beijing Eastlong Advertising fails to comply with its obligations under the foregoing contractual arrangements, such breach may have a material and adverse effect on our financial condition and results of operations.

The interests of our consolidated affiliated entities’ shareholders potentially may conflict with our interests.

The beneficial owners of VisionChina Media Group also are the founders of our company and own a substantial portion of our common shares. Their interests as beneficial owners of VisionChina Media Group and as beneficial owners of our company potentially may conflict. Beijing Eastlong Advertising’s shareholders founded Digital Media Group. The interests of Beijing Eastlong Advertising’s shareholders potentially may conflict with the interests of our company, particularly after we completed our acquisition of Digital Media Group in January 2010.

If and when a conflict of interests arises as described above, we cannot assure you that any or all of these individuals will act in the best interests of our company, or that said conflict of interests will be resolved in our favor. In addition, an individual whose interests conflict with our own could breach, or cause a consolidated affiliated entity to breach, or refuse to renew, our existing contractual arrangements, which would have a material and adverse effect on our ability to control that consolidated affiliated entity and to receive economic benefits from it. If we cannot resolve any conflict of interests or dispute between us and the equity holders of one or more of our consolidated affiliated entities, we would have to pursue our lawful rights and interests through legal proceedings, the outcome of which would be uncertain and could disrupt our business.

The audit report included in this annual report was prepared by auditors that are not inspected by the Public Company Accounting Oversight Board and, as such, our investors are deprived of the benefits of such inspection.

Our independent registered public accounting firm that issues the audit reports included in our annual reports filed with the U.S. Securities and Exchange Commission, as an auditor of companies that are traded publicly in the United States and as a firm that is registered with the U.S. Public Company Accounting Oversight Board (United States), or the PCAOB, is required by the laws of the United States to undergo regular inspections by the PCAOB in order to assess its compliance with the applicable laws of the United States and professional standards.

Our operations are principally conducted in China, a jurisdiction where the PCAOB currently is unable to inspect our auditors' work, as such work relates to those operations, without approval from PRC authorities. Accordingly, our auditor currently is not inspected fully by the PCAOB.

Inspections of other audit firms which the PCAOB has conducted outside China have identified deficiencies in those firms' audit procedures and quality control procedures, which may be addressed as part of the inspection process to improve the quality of future audits. The inability of the PCAOB to conduct inspections in China prevents the PCAOB from regularly evaluating the audits and quality control procedures of our auditor. Consequently, investors may be deprived of the benefits of PCAOB inspections.

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

If additional remedial measures are imposed on the Big Four PRC-based accounting firms, including our independent registered public accounting firm, in administrative proceedings brought by the SEC alleging the firms' failure to meet specific criteria set by the SEC with respect to requests for the production of documents, we could be unable to timely file future financial statements in compliance with the requirements of the Securities Exchange Act of 1934.

Starting in 2011 the Chinese affiliates of the ''big four'' accounting firms (including our independent registered public accounting firm) were affected by a conflict between U.S. and Chinese law. Specifically, for certain U.S. listed companies operating and audited in mainland China, the SEC and the PCAOB sought to obtain from the Chinese firms access to their audit work papers and related documents. The firms were, however, advised and directed that under China law they could not respond directly to the U.S. regulators on those requests, and that requests by foreign regulators for access to such papers in China had to be channeled through the CSRC.

In late 2012 this impasse led the SEC to commence administrative proceedings under Rule 102(e) of its Rules of Practice and also under the Sarbanes- Oxley Act of 2002 against the Chinese accounting firms (including our independent registered public accounting firm). A first instance trial of the proceedings in July 2013 in the SEC's internal administrative court resulted in an adverse judgment against the firms. The administrative law judge proposed penalties on the firms including a temporary suspension of their right to practice before the SEC, although that proposed penalty did not take effect pending review by the Commissioners of the SEC. On February 6, 2015, before a review by the Commissioner had taken place, the firms reached a settlement with the SEC. Under the settlement, the SEC accepts that future requests by the SEC for the production of documents will normally be made to the CSRC. The firms will receive matching Section 106 requests, and are required to abide by a detailed set of procedures with respect to such requests, which in substance require them to facilitate production via the CSRC. If they fail to meet specified criteria, the SEC retains authority to impose a variety of additional remedial measures on the firms depending on the nature of the failure. Remedies for any future noncompliance could include, as appropriate, an automatic six -month bar on a single firm's performance of certain audit work, commencement of a new proceeding against a firm, or in extreme cases the resumption of the current proceeding against all four firms.

In the event that the SEC restarts the administrative proceedings, depending upon the final outcome, listed companies in the United States with major PRC operations may find it difficult or impossible to retain auditors in respect of their operations in the PRC, which could result in financial statements being determined to be not in compliance with the requirements of the Exchange Act, including possible delisting. Moreover, any negative news about any such future proceedings against these audit firms may cause investor uncertainty regarding China -based, United States -listed companies and the market price of our ADSs may be adversely affected.

If our independent registered public accounting firm were denied, even temporarily, the ability to practice before the SEC and we were unable to timely find another registered public accounting firm to audit and issue an opinion on our financial statements, our financial statements could be determined to be not in compliance with the requirements of the Exchange Act of 1934, as amended. Such a determination could ultimately lead to the delisting of our ordinary shares from the Nasdaq Global Market or deregistration from the SEC, or both, which would substantially reduce or effectively terminate the trading of our ADSs in the United States.

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

Under applicable PRC laws, rules and regulations, arrangements and transactions among related parties may be subject to audits or challenges by the PRC tax authorities. Neither we nor our PRC counsel are able to guarantee that the PRC tax authorities will regard any of these transactions as having been negotiated and made at arm's length because, based on our knowledge, the PRC tax authorities have not issued a ruling or interpretation in respect of any transaction having a structure that is similar to ours. Relevant PRC tax authorities may determine that our contractual relationships with our consolidated affiliate entities and their equity holders were not entered into on an arm's length basis. If any of the transactions between one or more of our wholly owned subsidiaries in China and a consolidated affiliated entity, and its equity holders, including our contractual relationships with that consolidated affiliated entity, are determined to have not been entered into on an arm's length basis, or are found to result in a reduction in taxes that is impermissible under PRC law, the PRC tax authorities may adjust the profits and losses of that consolidated affiliated entity and accordingly reassess the entity's tax liability. Such a reassessment would likely result in the entity being required to pay a higher amount in taxes. In addition, the PRC tax authorities may impose late payment surcharges and other penalties on that consolidated affiliated entity for underpayment of taxes. Our operating results may be materially and adversely affected if the tax liability of one or more of our consolidated affiliated entities were to increase, or if one or more of those entities were subjected to late payment surcharges or other penalties.

We rely principally on our subsidiaries to pay us dividends and other distributions on equity in order to fund any cash and financing requirements we may have, and any limitation on the ability of our operating subsidiaries to pay dividends to us could have a material and adverse effect on our ability to conduct our business.

We are a holding company with no operations of our own. We conduct our operations in China primarily through our subsidiaries established in China. As a result, we rely principally on dividends and other distributions on equity paid to us by our PRC subsidiaries for our cash needs, including the funds necessary to pay dividends and other cash distributions to our shareholders, to service any debt we may incur and to pay our operating expenses. If any of our PRC operating subsidiaries incurs debt on its own behalf, the instruments governing the debt may restrict its ability to pay dividends or make other distributions to us. In addition, PRC tax authorities may require us to adjust our taxable income under the contractual arrangements our PRC operating subsidiaries currently have in place with our consolidated affiliated entities in a manner that would materially and adversely affect our PRC operating subsidiaries' ability to pay dividends and other distributions to us. Furthermore, the payment of dividends by entities established in China generally is subject to limitations. Relevant PRC laws, rules and regulations currently restrict payments of dividends to be made only out of accumulated profits, if any, as determined in accordance with PRC accounting standards and regulations. Under PRC laws, rules and regulations, each of our PRC operating subsidiaries also is required to set aside a portion of its net income each year to specific reserve funds until such time as the aggregate amount of such reserve funds equals 50% of its respective registered capital. Our restricted statutory reserve funds are used to make up for losses and are not allowed to be distributed as cash dividends.

To the extent that a company has not complied with these requirements, the company shall be ordered to contribute to the statutory reserve fund and may be fined a maximum penalty of RMB200,000. If the company has unlawfully distributed cash dividends to its shareholders out of its restricted statutory reserve funds, shareholders may be required to return to the company those dividends so distributed. As a result of these PRC laws, rules and regulations, our PRC operating subsidiaries are restricted in their ability to transfer a portion of their net assets to us whether in the form of dividends, loans or advances. Any limitation on the ability of our PRC operating subsidiaries to pay dividends to us could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our businesses, pay dividends or otherwise fund and conduct our business.

Historically, our PRC wholly -owned subsidiaries, CDTC and Beijing Eastlong Technology, did not pay dividends to us. The management of our company, its subsidiaries and consolidated variable interest entities, or the Group, believes that the Group will be able to pay dividends to us from CDTC and Beijing Eastlong Technology, but our management does not have any present plan for receiving dividends from our PRC operating subsidiaries, including CDTC and Beijing Eastlong Technology. Currently we plan to retain all of our profits in our PRC subsidiaries and consolidated affiliates, including CDTC and Beijing Eastlong Technology, and to reinvest those profits in for our future business expansion.

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Risks Related to Doing Business in China

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

All of our business operations are conducted in China and all of our sales are made in China. Substantially all of our assets are located in China and substantially all of our revenues are derived from our operations in China. Accordingly, our business, financial condition, results of operations and prospects are affected significantly by economic, political and legal developments in China. The Chinese economy differs from the economies of most developed countries in many respects, including:

- degree of government involvement;
- level of development;
- rate of economic growth;
- controls on foreign exchange;
- access to financing; and
- allocation of resources.

While the Chinese economy has experienced significant growth over the past 30 years, growth has been uneven, both geographically and across different sectors of the economy. The PRC government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures benefit the Chinese economy overall, but also may have a negative effect on us. For example, our financial condition and results of operations may be materially and adversely affected by government control over capital investments or changes in tax regulations that are applicable to us.

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

The PRC government also exercises significant control over China's economic growth by allocating resources, controlling payments of foreign- denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. These actions, as well as future actions and policies of the PRC government, could materially affect our liquidity, our access to capital, and our ability to operate our business. Accordingly, our business, financial condition, results of operations and prospects are subject, to a significant extent, to economic, political and legal developments in China.

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

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

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

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

PRC regulation of loans to and direct investment in PRC entities by offshore holding companies and governmental control of conversion of foreign exchange may delay or prevent us from making loans or additional capital contributions to our PRC operating subsidiaries and affiliates, which could adversely affect our ability to fund and expand our business.

We are an offshore holding company conducting our operations in China through our PRC operating subsidiaries and consolidated affiliated entities. We may make loans to our PRC subsidiaries and consolidated affiliated entities, or we may make additional capital contributions to our PRC subsidiaries. Any loans we make to our PRC subsidiaries or consolidated affiliated entities in China are subject to PRC regulations and approvals. For example:

- loans made by us to foreign invested enterprises, such as our PRC subsidiaries, cannot exceed statutory limits and must be registered with the SAFE, or its local counterparts; and

- loans made by us to domestic PRC enterprises, such as our consolidated affiliated entities, must be approved by relevant PRC governmental authorities and also must be registered with the SAFE, or its local counterparts.

We also may decide to finance our PRC operating subsidiaries by means of capital contributions. Any such capital contribution that we make must be approved by the PRC Ministry of Commerce, or the MOC, or its local counterpart. Because our VIEs and their subsidiaries are domestic PRC enterprises, we are not likely to finance their activities by means of capital contributions due to government regulation of foreign investment in domestic PRC enterprises, as well as licensing and other regulatory issues.

We cannot assure you that we will be able to obtain these government registrations or approvals on a timely basis, if at all, with respect to future loans or capital contributions that we may want to make to our consolidated affiliated entities or any of their subsidiaries. If we fail to receive such registrations or approvals, our ability to fund or expand our PRC operations may be materially and adversely affected, which could adversely and materially affect our liquidity and our ability to expand our business.

PRC regulations relating to the establishment of offshore special purpose companies by PRC residents may subject our PRC resident shareholders to personal liability, limit our ability to inject capital into our consolidated PRC entities, limit the ability of our consolidated PRC entities to distribute profits to us, or otherwise adversely affect us.

The SAFE issued a public notice in October 2005, or the SAFE notice, requiring PRC residents to register with a local SAFE branch before establishing or controlling any company outside of China for the purpose of obtaining capital financing with assets or equities of PRC companies, referred to in the notice as an “offshore special purpose company.” PRC residents that hold shares in offshore special purpose companies established before November 1, 2005 were required to register with their local SAFE branch before March 31, 2006. Furthermore, PRC residents are required to file amendments to their registrations with their local SAFE branch if their offshore special purpose companies undergo material events involving changes in capital, such as changes in share capital, mergers and acquisitions, share transfers or exchanges, spin-off transactions or long -term equity or debt investments. Such material events also would include an initial public offering by the company. Since May 2007, the SAFE has issued guidance to its local branches regarding the operational procedures for such registration, which guidance provides more specific and stringent requirements on the registration relating to SAFE Circular 75, including the most recent *Notice of SAFE on Printing and Distributing the Implementing Rules for the Administration of Foreign Exchange in Fund-raising and Round- trip Investment Activities of Domestic Residents Conducted via Offshore Special Purpose Companies*, or Circular 19, which became effective on July 1, 2011. This guidance obligates onshore subsidiaries of the offshore special purpose company to coordinate with and supervise the beneficial owners of the offshore entity who are PRC citizens or residents to complete the SAFE registration process. If the beneficial owners fail to comply, the onshore subsidiaries are required to report such non-compliance to the local branch of SAFE.

As of the date of this annual report, we had been advised that both Limin Li and Yanqing Liang, each of whom is a PRC citizen and our shareholder, have registered with their respective local SAFE branches as required by the SAFE notice. They are required to amend their registrations to reflect recent developments of our company and our PRC subsidiary. The failure of our beneficial owners who are PRC citizens to amend their SAFE registrations in a timely manner pursuant to the SAFE notice or the failure of future beneficial owners of our company who are PRC residents to comply with the registration procedures set forth in the SAFE notice may subject such beneficial owners to fines and legal sanctions and also may limit our ability to contribute additional capital to our PRC subsidiary, limit the ability of our PRC subsidiary to distribute dividends to our company, or otherwise materially and adversely affect our business.

Failure to comply with PRC regulations regarding the registration requirements for employee equity incentive plans may subject our PRC citizen employees or us to fines and other legal or administrative sanctions.

Pursuant to the Measures for the Administration of Individual Foreign Exchange promulgated by the People’s Bank of China on December 25, 2006, the Implementation Rules of the Administrative Measures for Individual Foreign Exchange, or the Individual Foreign Exchange Rule, promulgated on January 5, 2007 by the SAFE and the Notices on Issues Concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive

Plans of Overseas Publicly-Listed Companies issued by the SAFE on February 15, 2012, or the Stock Incentive Plan Rules, which replaced the Processing Guidance on Foreign Exchange Administration of Domestic Individuals Participating in the Employee Stock Ownership Plans or Stock Option Plans of Overseas-Listed Companies issued by the SAFE in March 2007, "domestic individuals" (both PRC individuals and non-PRC individuals who reside in the PRC for a continuous period of not less than one year, excluding foreign diplomatic personnel and representatives of international organizations) who are granted shares or share options by an overseas-listed company according to its share option or stock incentive plan are required, through qualified PRC agents which may be the PRC subsidiary of such overseas-listed company, to register with the SAFE and complete certain other procedures related to such share option or stock incentive plan. In addition, such "domestic individuals" also must retain an overseas entrusted institution to handle matters in connection with their exercise of stock options and their purchase and sale of stocks. As such, our employees, who are "domestic individuals" and have been granted share options, or PRC optionees, became subject to the Stock Incentive Plan Rules when our company became an overseas-listed company upon the completion of our initial public offering. If we or our PRC optionees fail to comply with the Individual Foreign Exchange Rule and the Stock Incentive Plan Rules, we and our PRC optionees may be subject to fines and other legal sanctions. We also may face regulatory uncertainties that could restrict our ability to adopt additional option plans for our directors and employees under PRC law. In addition, the PRC State Administration of Taxation, or the SAT, has issued certain circulars concerning employee share options. Under these circulars, our employees working in the PRC who exercise share options will be subject to PRC individual income tax. Our PRC subsidiaries are obligated to file documents related to employee share options with relevant tax authorities and to withhold amounts of individual income taxes from those employees who exercise their share options. If our employees fail to pay, or we fail to withhold, such amounts of income taxes according to relevant PRC tax laws and regulations, we may face sanctions imposed by the tax authorities or other PRC governmental authorities. Furthermore, there are substantial uncertainties regarding the interpretation and implementation of the Individual Foreign Exchange Rule and the Stock Incentive Plan Rules.

If any of our PRC affiliates becomes the subject of a bankruptcy or liquidation proceeding, we may lose the ability to use and enjoy such affiliate's assets, which could reduce the size of our advertising network and materially and adversely affect our business, ability to generate revenues and the market price of our ADSs.

To comply with PRC laws, rules and regulations relating to restrictions on foreign investment in and ownership of advertising businesses in China, we currently conduct our operations in China through contractual arrangements with our consolidated affiliated entities and their equity holders. As part of these arrangements, VisionChina Media Group, Beijing Eastlong Advertising and their subsidiaries hold some of the assets that are important to the operation of our business. If any of these entities becomes bankrupt and all or part of their assets become subject to liens or rights of third-party creditors, we may be unable to continue some or all of our business activities, which could materially and adversely affect our business, financial condition and results of operations. If any of our consolidated affiliated entities or any of their subsidiaries undergoes a voluntary or involuntary liquidation proceeding, their shareholders or unrelated third- party creditors may claim rights to some or all of their assets, thereby hindering our ability to operate our business, which could materially and adversely affect our business, our ability to generate revenues and the market price of our ADSs.

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

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

Fluctuation in the value of the Renminbi may have a material and adverse effect on your investment.

Fluctuation in the value of the Renminbi against the U.S. dollar is affected by, among other things, changes in the PRC's political and economic conditions. From 1995 until July 2005, the People's Bank of China intervened in the foreign exchange market to maintain an exchange rate of approximately RMB8.3 per U.S. dollar. On July 21, 2005, the PRC government changed this policy and began allowing modest appreciation of the Renminbi against the U.S. dollar. Under the new policy, the Renminbi was permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. This change in policy caused the Renminbi to appreciate more than 20% against the U.S. dollar over the following five years. As a consequence, the Renminbi has fluctuated sharply against other freely traded currencies since July 2008. It is difficult to predict how long the PRC government's current policy with respect to the value of the Renminbi may continue, and when and how such policy may change in the future. The PRC government is still under significant international pressure to liberalize its currency policy or to adopt a more flexible policy, which could result in further and more significant appreciation in the value of the Renminbi against the U.S. dollar.

As we rely on dividends paid to us by our operating subsidiary, any significant revaluation of the Renminbi may have a material and adverse effect on our cash flows, revenues, earnings and financial position, and the value of, and dividends payable on, our ADSs in foreign currency terms. Significant revaluation of the Renminbi also may have a material and adverse effect on your investment. For example, to the extent that we need to convert U.S. dollars into Renminbi for our operations, appreciation of the Renminbi against the U.S. dollar would have an adverse effect on the Renminbi amount we would receive from the conversion. Conversely, if we decide to convert our Renminbi into U.S. dollars for the purpose of making payments for dividends on our common shares or ADSs or for other business purposes, appreciation of the U.S. dollar against the Renminbi would have a negative effect on the U.S. dollar amount available to us for such payments. In addition, fluctuation in the value of the Renminbi relative to the U.S. dollar would have a positive or negative effect on our financial results reported in U.S. dollar terms without giving effect to any underlying change in our business, financial condition and results of operations.

Very limited hedging options are available in China to reduce exposure to exchange rate fluctuations. To date, we have not entered into any hedging transactions to reduce our exposure to such fluctuations. While we may decide to enter into hedging transactions in the future, the availability and effectiveness of these hedges may be limited and we may not be able to hedge our exposure successfully, if at all. In addition, any loss we incur related to foreign exchange depreciation may be aggravated by PRC exchange control regulations that restrict our ability to convert Renminbi into foreign exchange.

The discontinuation of any preferential tax treatment currently available to us and the increase in the PRC enterprise income tax could decrease our net income and materially and adversely affect our financial condition and results of operations.

Our operating subsidiaries and consolidated affiliates are incorporated in the PRC and are subject to applicable PRC income tax laws and regulations. The *PRC Enterprise Income Tax Law*, or the EIT Law, became effective on January 1, 2008. The implementation of regulations under the EIT Law issued by the PRC State Council, or the implementation regulations, also became effective January 1, 2008. Under the EIT Law and the implementation regulations, the PRC has adopted a uniform tax rate of 25% for all enterprises (including foreign-invested enterprises) and has revoked previous tax exemption, reduction and preferential treatments applicable to foreign-invested enterprises. However, there is a transition period for enterprises, whether foreign-invested or domestic, that received preferential tax treatments granted by relevant tax authorities prior to January 1, 2008. Enterprises that were subject to an enterprise income tax rate lower than 25% prior to January 1, 2008 may continue to enjoy the lower rate and gradually transition to the new tax rate within five years after the effective date of the EIT Law.

Before the EIT Law and its implementation regulations became effective on January 1, 2008, CDTC and VisionChina Media Group, as enterprises located in the Shenzhen Special Economic Zone, were allowed to enjoy a preferential tax rate of 15%, and pursuant to the EIT Law, continued to enjoy the lower rate and gradually transitioned to the new tax rate within five years from 2008 to 2012. VisionChina Media Group’s sales branches located in various cities in the PRC are subject to enterprise income tax at the standard rate of 25% under the EIT Law. Furthermore, in November

2008, VisionChina Media Group was recognized as a “new and high technology enterprise strongly supported by the state” and became entitled to a preferential tax rate of 15% for 2009 and 2010. In October 2011, VisionChina Media Group obtained approval from governmental authorities to be recognized as a state-encouraged new and high technology enterprise from 2011 to 2016, and is entitled to a preferential tax rate of 15% during these six years, subject to an approval from the tax authority at the end of each year. In accordance with a circular issued in December 2010, Beijing Eastlong Technology has been recognized as a state-encouraged new and high technology enterprise starting from 2010, and this status is valid for a period of three years. As such, the effective EIT rate for Beijing Eastlong Technology was 15% in each of the years 2010, 2011 and 2012, and was 25% in 2013, 2014 and 2015, respectively. Furthermore, one of our operating consolidated affiliated entities in Luzhou in Sichuan province was recognized as a “local government encouraged company” and was entitled to exemption from the enterprise income tax for the years 2008 and 2009, and to reduced tax rates of 7.5%, 7.5%, 7.5%, and 15% for the years 2010, 2011, 2012 and 2013, respectively. The standard EIT rate of 25% was applicable to Beijing Eastlong Technology in 2014. Notwithstanding the standard statutory tax rate of 25%, in 2011, under the direction of the relevant tax authority, one of our operating consolidated affiliated entities, Jiangxi Huashi Media Advertising Co., Ltd., or Jiangxi Huashi, applied a deemed-profit-rate method for its annual tax filings in 2011. Pursuant to the deemed-profit-rate method, Jiangxi Huashi’s taxable income was deemed to be 16% of its revenues generated in 2011. Jiangxi Huashi did not produce any revenue for the year ended December 31, 2015.

We cannot assure you that our PRC operating subsidiary and consolidated affiliated entities will enjoy preferential tax treatment in the future. Any further changes to PRC tax laws or regulations could subject our PRC operating subsidiary and consolidated affiliated entities to increased rates of income tax. Any increase in the effective EIT rate applicable to our operating subsidiary and consolidated affiliated entities in the PRC would decrease our net income and materially and adversely affect our financial condition and results of operations.

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

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

In addition, we conduct our advertising business through contractual arrangements with our consolidated affiliated entities, which are currently owned by individuals. If one of our consolidated affiliated entities were to distribute dividends in the future, we would be required to pay taxes at an individual income tax rate of 20% on behalf of our employees who hold interests in that consolidated affiliated entity. Furthermore, business tax liability potentially may arise from the contractual arrangements with our consolidated affiliated entities. If we were unable to receive tax free distributions of earnings from our consolidated affiliated entities and were required to pay additional taxes on those distributions, our net income, financial condition, and results of operations would be materially and adversely affected.

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

The EIT Law provides that enterprises established outside China whose "de facto management bodies" are located in China are considered "resident enterprises" and are generally subject to the uniform 25% enterprise income tax rate as to their worldwide income. Under the implementation regulations for the EIT Law issued by the PRC State Council, "de facto management body" is defined as a body that has material and overall management and control over the manufacturing and business operations, personnel and human resources, finances and treasury, and acquisition and disposition of properties and other assets of an enterprise.

Circular 82 and Circular 45 issued by the SAT in 2009 and 2011, respectively, or the SAT Notices, provide detailed guidance regarding the definition of "de facto management bodies" and the determination and administration of offshore-incorporated PRC tax residents. Under the SAT Notices, an "offshore - incorporated PRC tax resident" was defined as "an enterprise that is incorporated under the law of a foreign country or territory with a PRC company or PRC corporate group as its primary controlling shareholder whose de facto management bodies are located within the PRC."

Our board of directors holds regular meetings and makes most of its significant operational, investment, financing and human resources decisions outside of the PRC. In addition, our senior management regularly spends time outside of the PRC developing and managing investor relations. As such, we believe that our "de facto management body" is located outside the PRC, and, accordingly, we believe that it is unlikely that we will be treated as a PRC "resident enterprise" under the EIT Law. Furthermore, we believe that we do not meet the criteria under Circular 82, since Circular 82 only applies to offshore enterprises controlled by PRC enterprises, while none of our major controlling shareholders is a PRC company or PRC corporate group. If we were treated as a "PRC resident enterprise" for PRC tax purposes, we would be subject to PRC tax on our worldwide income at the uniform tax rate of 25%, and our effective net tax rate and results of operations thereby could be materially and adversely affected. However, for the years ended December 31, 2013, 2014 and 2015, our legal entities organized outside of the PRC incurred losses. Therefore, even if our legal entities organized outside the PRC were treated as PRC residents for purposes of the EIT Law, our management believes that such treatment would not have any material impact on our results of operations.

Dividends payable by us to our foreign investors and any capital gains realized on the sale of our ADSs or common shares may become subject to tax under PRC tax laws.

Under the EIT Law and implementation regulations issued by the State Council, PRC income tax at a rate of 10% is applicable to dividends payable to investors that are "non-resident enterprises" which do not have an establishment or place of business in the PRC, or which have such establishment or place of business but whose relevant income is not effectively connected with the establishment or place of business, to the extent that such dividends have their sources within the PRC. Similarly, any capital gain realized on the transfer of ADSs or shares by such investors also is subject to PRC income tax at the 10% rate if such gain is regarded as income derived from sources within the PRC. If we are considered a PRC "resident enterprise," it is unclear whether dividends we pay with respect to our common shares or ADSs, or the gain you may realize from the transfer of our common shares or ADSs, would be treated as income derived from sources within the PRC and thereby subject to PRC tax. It is also unclear whether, if we are considered a PRC "resident enterprise," holders of our ordinary shares or ADSs might be able to claim the benefit of income tax treaties entered into between China and other countries. If we are required under the EIT Law to withhold PRC income tax on dividends payable to our non-PRC investors that are "non-resident enterprises," or if you are required to pay PRC income tax on the transfer of our common shares or ADSs, the value of your investment in our common shares or ADSs may be materially and adversely affected.

We face risks related to natural disasters, health epidemics, terrorist attacks or other events in China that may affect usage of public transportation, which could have a material and adverse effect on our business and results of operations.

Our business could be materially and adversely affected by natural disasters, the outbreak of health epidemics, terrorist attacks or other events in China. For example, in early 2008, parts of China, in particular its southern, central and eastern regions, experienced what was reported to be the most severe winter weather in the country in half a century, which resulted in significant and extensive damage that severely impacted public transportation systems. In

May 2008, a major earthquake struck Sichuan Province and certain other parts of China, devastating many of the affected areas and causing tens of thousands of deaths and widespread injuries. In addition, over the last decade, the PRC has encountered incidents of the H5N1 strain of bird flu, or avian flu, severe acute respiratory syndrome, or SARS, and, more recently in 2009, the outbreak of influenza A, also known as H1N1, and the spread of H7N9 avian influenza virus in early 2013. In July 2008, explosive devices were detonated on several buses in Kunming in China's Yunnan Province, which resulted in casualties and disruptions to public transportation systems in Kunming. Any future natural disasters, health epidemics, terrorist attacks or other events in the PRC could cause a reduction in usage of, or other severe disruptions to, public transportation systems and could have a material and adverse effect on our business and results of operations.

The implementation of the PRC Labor Contract Law may significantly increase our operating expenses and adversely affect our business and results of operations.

The PRC National People's Congress enacted the Labor Contract Law, which was promulgated on June 29, 2007 and became effective on January 1, 2008, and the amendment to the Labor Contract Law which was promulgated on December 28, 2012 and became effective on July 1, 2013, or the Labor Contract Law Amendment. The Labor Contract Law and the Labor Contract Law Amendment formalize workers' rights concerning overtime hours, pensions, layoffs, employment contracts and the role of trade unions, and specifies standards and procedures for the termination of an employment contract. In addition, the Labor Contract Law and the Labor Contract Law Amendment require statutory severance pay to be paid upon the termination of an employment contract in most cases, including in cases where a fixed-term employment contract has expired. As there has been little guidance as to how the Labor Contract Law and the Labor Contract Law Amendment will be interpreted and enforced by relevant PRC authorities, there remains substantial uncertainty as to its potential impact on our business and results of operations. The implementation of the Labor Contract Law and the Labor Contract Law Amendment may significantly increase our operating expenses, in particular our personnel expenses, as the continued success of our business depends significantly on our ability to attract and retain qualified personnel. In the event that we decide to terminate some of our employees or otherwise change our employment or labor practices, the Labor Contract Law and the Labor Contract Law Amendment may also limit our ability to effect these changes in a manner that we believe to be most desirable or cost- effective, which could adversely affect our business and results of operations.

Risks Related to Our Common Shares and ADSs

The market price of our ADSs may be volatile which could result in substantial loss to you.

The market price of our ADSs is likely to be highly volatile and subject to wide fluctuations in response to a number of factors, including:

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

- changes in financial estimates by securities research analysts;
- changes in the economic performance or market valuations of companies with comparable businesses;
- additions or departures of our executive officers;
- release or expiry of lock-up or other transfer restrictions on our outstanding common shares or ADSs;
- sales or perceived sales of additional common shares or ADSs; and
- conversion of convertible notes held by the Former DMG Shareholders.

In addition, the securities markets from time to time have experienced significant price and volume fluctuations that are not related to the operating performance of particular companies. For example, the securities of some China -based companies that have listed their securities in the United States have experienced significant volatility since their initial public offerings, including, in some cases, substantial declines in the trading prices of their securities. The trading performances of these Chinese companies' securities after their offerings may affect the attitudes of investors toward Chinese companies listed in the United States, which consequently may impact the trading performance of our ADSs, without reference to our actual operating performance. In addition, any negative news or perceptions about inadequate corporate governance practices or fraudulent accounting, corporate structure or other matters of other Chinese companies also may negatively affect the attitudes of investors towards Chinese companies in general, including us, regardless of whether we have engaged in any inappropriate activities.

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

Sales of our ADSs or common shares in the public market, or the perception that these sales could occur, could cause the market price of our ADSs to decline. As of December 31, 2015, we had 102,741,977 common shares outstanding, including 79,250,445 common shares represented by 3,962,522 ADSs. Sales of our common shares or ADSs held by our significant shareholders or any other shareholder, or the availability of these securities for future sale, may have a negative effect on the market price of our ADSs. In addition, certain of our shareholders or their transferees and assignees have the right to cause us to register the sale of their shares under the Securities Act upon the occurrence of certain events. Registration of these shares under the Securities Act would result in these shares becoming freely tradable without restriction under the Securities Act immediately upon their registration becoming effective. Sales of these registered shares in the public market could cause the price of our ADSs to decline.

Our charter documents contain anti-takeover provisions that could have a material and adverse effect on the rights of holders of our ADSs.

Our amended and restated memorandum and articles of association include provisions that could limit the ability of others to acquire control of our company, modify our structure or cause us to engage in change-of-control transactions. These provisions could have the effect of depriving our shareholders of an opportunity to sell their shares at a premium over prevailing market prices by discouraging third parties from seeking to obtain control of our company in a tender offer or similar transaction. For example, our board of directors has the authority, without further action by our shareholders, to issue preferred shares in one or more series and to fix the powers and rights of these shares, including dividend rights, conversion rights, voting rights, terms of redemption and liquidation preferences, any or all of which may be greater than the rights associated with our common shares in the form of ADS or otherwise. Preferred shares thus could be issued quickly with terms calculated to delay or prevent a change in control of our company or make removal of management more difficult. In addition, if our board of directors issues preferred shares, the market price of our common shares may decline and the voting and other rights of the holders of our common shares may be materially and adversely affected.

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

Our corporate affairs are governed by our amended and restated memorandum and articles of association, the Cayman Islands Companies Law (as amended) and the common law of the Cayman Islands. The rights of shareholders to take action against the directors, actions by minority shareholders and the fiduciary responsibilities of our directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as from English common law, which has persuasive, but not binding, authority on a court in the Cayman Islands. The rights of our shareholders and the fiduciary responsibilities of our directors under Cayman Islands law are not as clearly established as they would be under statutes or judicial precedent in some jurisdictions of the United States. In particular, securities laws of the Cayman Islands are less developed than those of the United States. In addition, some U.S. states, such as Delaware, have bodies of corporate law that are more fully developed and judicially interpreted than corporate law of the Cayman Islands. Furthermore, shareholders of Cayman Islands companies may not have standing to initiate a shareholder derivative action in a federal court of the United States. As a result, our public shareholders may have more difficulties in protecting their interests in the face of actions taken by management, members of the board of directors or controlling shareholders than they otherwise would if they were shareholders of a company incorporated in the United States.

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

We are a Cayman Islands company and substantially all of our assets are located outside of the United States. All of our current operations are conducted in the PRC. In addition, most of our directors and officers are nationals and residents of countries other than the United States. A substantial portion of the assets of these persons are located outside the United States. As a result, it may be difficult for you to effect service of process within the United States upon these persons. It also may be difficult for you to enforce in the U.S. judgments obtained in U.S. courts based on civil liability provisions of U.S. federal securities laws against us or our officers and directors, most of whom are not residents of the United States and a substantial portion of whose assets are located outside of the United States. Moreover, there is uncertainty as to whether the courts of the Cayman Islands or the PRC would recognize or enforce judgments of United States courts against us or our directors and officers predicated upon civil liability provisions of securities laws of the United States or any state in the United States. In addition, there is uncertainty as to whether courts of the Cayman Islands or the PRC would be competent to hear original actions brought against us or our directors and officers predicated upon the securities laws of the United States or any state in the United States.

Holders of ADSs have fewer rights than shareholders and must act through the depositary to exercise their rights.

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

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

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

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

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

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

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

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

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

In addition, the depositary of our ADSs has agreed to pay to you the cash dividends or other distributions it or the custodian receives on our common shares or other deposited securities underlying our ADS, after having deducted its fees and expenses and any applicable taxes and government charges. You will receive these distributions in proportion to the number of common shares your ADSs represent. However, the depositary may, in its discretion, decide that it is impractical to make a distribution available to any holders of ADSs. For example, the depositary may determine that it is not reasonably practicable to distribute certain property, or that the value of certain distributions may be less than the cost of distributing them. In these cases, the depositary may decide not to distribute such property and you will not receive such distribution.

ITEM 4. INFORMATION ON THE COMPANY

A. History and Development of the Company

We commenced operations through China Digital Mobile Television Co., Ltd., a limited liability company established in China on April 8, 2005. In September 2008, we changed the name of China Digital Mobile Television Co., Ltd. to VisionChina Media Group. VisionChina Media Group is currently 70% owned by Limin Li, our co-founder, chairman of our board of directors and our chief executive officer, and 30% owned by Yanqing Liang, our co-founder. Both Limin Li and Yanqing Liang are PRC citizens. VisionChina Media Group and its subsidiaries hold the licenses and permits necessary to operate our businesses and provide our advertising services in China.

Our company was incorporated as CDMTV Holding Company in the Cayman Islands on January 27, 2006 on behalf of our co-founders, Limin Li and Yanqing Liang. On August 13, 2007, we changed our company’s name to VisionChina Media Inc. On March 9, 2006, we established our wholly owned subsidiary, CDTC, in Shenzhen.

On December 6, 2007, our ADSs were listed on the Nasdaq Global Market.

We purchased all of the outstanding equity interests in six British Virgin Islands companies from their sellers pursuant to share subscription agreements entered into in April, May and August 2008 in connection with our acquisition of certain advertising agency businesses in China.

In August 2008, we completed a follow-on public offering in which we sold 1,150,000 newly issued common shares, in the form of ADSs, at a price of US$16.00 per ADS and received gross proceeds of US$17.6 million.

In October 2009, we entered into an agreement (which was amended and restated in November 2009) to acquire Digital Media Group, which was completed in January 2010. The total consideration of US$160 million (or US$167 million based on the fair value of the total consideration on the acquisition date in January 2010) was payable in three installments over two years in cash and shares. In November 2009, we deposited the initial installment of US$40 million and 8,476,013 of our common shares, registered under Vision Best Limited, our consolidated subsidiary, into an escrow account, a portion of which was released upon completion of the acquisition and the remaining portion was to be released in accordance with the terms of the agreement and plan relating to our acquisition of Digital Media Group. The second installment of US$30 million was to be paid on the first anniversary of the acquisition, of which US$20 million was to be in the form of cash and US$10 million in the form of cash or shares at the option of the eligible Former DMG Shareholders. The number of our ordinary shares representing the share consideration of the second installment was to be equal to the quotient of US$10 million divided by the higher of (A) 125% of US$7.0788, or the Initial Conversion Price, and (B) 80% of the average of the closing sales prices for one ADS as reported on the Nasdaq Global Market for the twenty consecutive trading days ending (and including) two days prior to the payment date. The third installment of US$30 million was to be paid on the second anniversary of the acquisition, of which US$20 million was to be in the form of cash and US$10 million in the form of cash or shares at the option of the eligible Former DMG Shareholders. The number of our ordinary shares representing the share consideration of the third installment was to be equal to the quotient of US$10 million divided by the higher of (A) 150% of the Initial Conversion Price and (B) 80% of the average of the closing sales prices for one ADS as reported on the Nasdaq Global Market for the twenty consecutive trading days ending (and including) one day prior to the payment date. The second and third installments totaling US$60 million remained unpaid as of December 31, 2013 as a result of our lawsuit against the Former DMG Shareholders. On April 30, 2014, we entered into a Settlement Arrangement with the Former DMG Shareholders. Pursuant to the Settlement Arrangement, we and the Former DMG Shareholders agreed to discontinue pending litigation in connection with the acquisition of Digital Media Group in New York, United States and the Cayman Islands with customary closing conditions. We agreed to settle the unpaid acquisition consideration by a combination of an upfront payment of US$12 million in cash and the issuance of interest-bearing convertible notes of US$58 million to the Former DMG Shareholders upon closing.

In July 2010, following a definitive agreement entered into between our company and certain of our existing shareholders and employees dated June 25, 2010, we issued an aggregate of 4,006,474 common shares at a subscription price of US$3.22 per share, equivalent to US$3.22 per ADS, to these existing shareholders and employees. We received net proceeds of US$12.9 million from issuing these shares.

On December 30, 2010, in order to offer integrated media solutions and greater media value to advertisers, we entered into a securities purchase agreement with Focus Media Holding Limited, or Focus Media, China's largest lifestyle community and digital out-of-home media company; Front Lead Investments Limited, or Front Lead; and JJ Media Investment Holding Limited, or JJ Media. Pursuant to this agreement, Focus Media, Front Lead and JJ Media purchased 15,331,305, 1,022,087 and 1,022,087, respectively, of our newly issued common shares at a price of US$3.979 per share, equivalent to US$3.979 per ADS. Upon the consummation of these transactions, Front Lead and Focus Media owned approximately 17.2% and 15%, respectively, of our outstanding common shares. In connection with these transactions, we also entered into a shareholders agreement and a registration rights agreement with Front Lead, Focus Media and JJ Media on January 13, 2011. We received net proceeds of US$69.0 million from these transactions.

Pursuant to the securities purchase agreement, each of Focus Media, Front Lead and JJ Media agreed to a lock-up period of 365 days from the date on which they purchased our newly issued common shares with respect to all transactions other than those in which a majority of our company is being acquired. Furthermore, Focus Media and JJ Media each agreed to a standstill period ranging from two to three years from the date on which they purchased our newly issued common shares, during which period they would not acquire or offer to acquire any additional voting securities of our company or assist or participate in efforts by any other party to do so. These restrictions do not apply to transactions made by Focus Media pursuant to its gross-up rights provided by the securities purchase agreement. Such gross-up rights are valid for five years from the date of the securities purchase agreement and give Focus Media the opportunity to acquire securities offered by us in any nonpublic offering or sale of any security that is convertible into equity in order to maintain its proportionate interest in our company.

Under the registration rights agreement, we will file with the SEC a shelf registration statement within 18 months of the purchase of our securities by Focus Media, Front Lead and JJ Media. All expenses incurred in connection with a subsequent sale of registered shares which requires any further filings are to be borne by the holders of such shares. Under the shareholders agreement, Focus Media has the right to nominate one candidate for election to our Board so long as it owns at least 5% of our outstanding common shares. The shareholders agreement also establishes rights of first offer between Focus Media, Front Lead and JJ Media in which existing shareholders seeking to transfer their shares must first make an offer of such shares to other existing shareholders.

On July 14, 2015, in order to fund our working capital and out-of-home interactive media growth initiatives, we entered into a definitive share purchase agreement with China Special Situtations Holdings (1)(BVI) Limited, a leading investment company in the technology, media and telecommunications (TMT) and consumer electronics sectors in China. Pursuant to the share purchase agreement, China Special Situations Holdings (1) (BVI) Limited will purchase our newly issued Common Shares for total consideration of approximately US$9.8 million, at a purchase price of US$12.90 per ADS, or the equivalent of approximately US$ 0.645 per Common Share. The purchase price represents a premium of approximately 7.5% over closing price of the Company's ADSs for the previous trading day prior to the signing date of the share purchase agreement. Upon closing, China Special Situations Holdings (1) (BVI) Limited will hold approximately 13.0% of our issued and outstanding share capital and will become one of our largest shareholders. As of the date of this report, the transaction has not been consummated due to China Special Situations Holdings (1) (BVI) Limited's failure to pay the purchase price. The parties are currently in discussion to restructure the transaction.

Pursuant to the share purchase agreement, China Special Situations Holdings (1) (BVI) Limited has also agreed not to sell, transfer or dispose of any Common Shares acquired in this transaction to any third parties for a period of six months after closing of this private placement. In addition, China Special Situations Holdings (1) (BVI) Limited will have the right to appoint one director to the Company's board of directors after this transaction.

Due to PRC regulatory restrictions on foreign investments in the advertising and mobile digital television industries, we operate our advertising business in China through VisionChina Media Group and Beijing Eastlong Advertising. While we do not have any equity interests in the operating entities in China, our relationships with VisionChina Media Group, Beijing Eastlong Advertising and their respective equity holders are governed by a series of contractual arrangements that allow us effectively to control and derive economic benefits from both VisionChina Media Group and Beijing Eastlong Advertising (for the details of these contractual arrangements, please see "Item 7. Major Shareholders and Related Party Transactions — B. Related Party Transactions —Agreements that Provide Us Effective Control over VisionChina Media Group, Beijing Eastlong Advertising and Their Respective Subsidiaries"). Accordingly, we treat VisionChina Media Group and Beijing Eastlong Advertising as variable interest entities and have consolidated their historical financial results in our financial statements in accordance with U.S. GAAP. All our revenues were derived from VisionChina Media Group for the year ended December 31, 2009. After we completed the acquisition of Digital Media Group in January 2010, Beijing Eastlong Advertising became our consolidated variable interest entity, and substantially all of our revenues for the years ended December 31, 2010 and 2011 were derived from VisionChina Media Group and Beijing Eastlong Advertising. Our assets and those of our subsidiaries mainly include cash, accounts receivables, plants and equipment, intangible assets, investments in consolidated variable interest entities and investments under cost method. The revenues generated by us and our subsidiaries, apart from revenues earned in respect of the relevant contractual arrangements to which CDTC and Beijing Eastlong Advertising are parties, are primarily derived from (1) sales of Passenger Information and Direction Systems, which display information about the subway trains and advertising, to various subway companies in the PRC; (2) sales of equipment used for mobile digital television systems on mass transit systems; and (3) advertising revenue on advertising platforms located outside of the PRC. In the fiscal years ended December 31, 2013, 2014 and 2015, we and our subsidiaries (excluding operations that are subject to involvement with the consolidated affiliated entities) contributed in aggregate approximately 1.5%, 1.3% and 4.9%, respectively, of our total consolidated net revenues derived from third parties and non-consolidated affiliates. As of December 31, 2013, 2014 and 2015, we and our subsidiaries accounted for an aggregate of 20.7%, 21.3% and 26.9%, respectively, of our total assets (excluding for the purpose of this calculation assets that are subject to involvement with the consolidated affiliated entities).

Other than the above contractual arrangements, our company or CDTC does not have any business relationships with the equity holders of VisionChina Media Group, and our company or Beijing Eastlong Technology does not have any business relationships with the equity holders of Beijing Eastlong Advertising.

In February 2016, our consolidated variable interest entities VisionChina Media Group Co., Ltd. and Shenzhen HDTV Industrial Investment Co., Ltd. (collectively “VisionChina Subsidiaries”) have entered into an equity transfer agreement and a profit compensation agreement to sell all of our subway mobile TV advertising business to Ledman Optoelectronic Co., Ltd. (“Ledman”), a leading manufacturer and distributor of LED products in China, for an aggregate consideration of RMB780 million (US$119 million) (the “Consideration”). Prior to this transaction, VisionChina Subsidiaries completed a restructuring to transfer the subway mobile TV advertising business to VisionChina New Culture Media Co., Ltd. ("New Culture"), an entity wholly owned by VisionChina Subsidiaries. Since January 1, 2016, New Culture has been the operating entity of the subway mobile TV advertising business. Upon the closing of this transaction, Ledman will hold 100% equity interest of New Culture.

Pursuant to the equity transfer agreement, Ledman will pay RMB390 million in cash and the other RMB390 million in the form of 20,774,680 newly issued shares of Ledman (the "Share Consideration"). Upon the completion of this transaction, we, through VisionChina Media Group Co., Ltd. and Shenzhen HDTV Industrial Investment Co., Ltd., will indirectly own approximately 5.6% of Ledman. The Share Consideration will be subject to a 36-month lock-up.

In addition, according to the profit compensation agreement, in the event that the consolidated net profits attributable to the shareholders (excluding extraordinary items) of New Culture in any of the fiscal years 2016, 2017 and 2018 are less than the profit target for such fiscal year - RMB60 million, RMB80 million and RMB100 million, respectively, VisionChina Subsidiaries will compensate Ledman for the deficiency by returning a certain amount of the Share Consideration to Ledman. In the event that the Share Consideration is not sufficient to compensate for such deficiency, VisionChina Subsidiaries are required to pay compensation in cash. The compensation amount will be calculated based on a pre-determined formula and subject to an aggregate cap in an amount equal to the amount of the Consideration.

In July 2016, Ledman advised us that it had submitted to the CSRC an application for suspension of the Transaction pending uncertainties surrounding government regulatory policies pertaining to foreign-listed Chinese companies relisting in China's domestic stock market.

In August 2016, we entered into a new equity transfer agreement and a new profit compensation agreement (the "New Agreements") with Ledman to sell 49% equity interests in New Culture, for an aggregate consideration of RMB382.2 million (the "New Transaction"). Concurrently with signing of the New Agreements, VisionChina Subsidiaries and Ledman agreed to terminate the equity transfer agreement and profit compensation agreement entered into among the parties in February 2016 for sale of all of the Company's subway mobile TV advertising business to Ledman.

Pursuant to the new equity transfer agreement, Ledman will pay RMB382.2 million to acquire 49% equity interests in New Culture. Upon closing of the New Transaction, Ledman will pay an installment of RMB321.2 million in cash to VisionChina Media Group Co., Ltd, and VisionChina Media Group Co., Ltd will be required to use the entire amount of the first installment payment to purchase shares of Ledman held by Ledman's controlling shareholder ("Ledman Shares") through a block trade within five business days after the first installment payment. Within 10 business days (excluding time required for the block trade described above) after the closing of the New Transaction, Ledman will pay the remaining amount of RMB61 million in cash. Upon completion of the transactions contemplated by the new equity transfer agreement, we expect to receive cash proceeds of RMB61 million and indirectly own, through VisionChina Media Group Co. Ltd, a certain amount of Ledman's total outstanding shares. The Ledman Shares will be subject to a lock-up until May 31, 2019 and VisionChina Media Group may not sell or otherwise dispose of more than 75% of the Ledman Shares during the 12 months after the lock-up expires.

According to the new profit compensation agreement, in the event that the consolidated net profits attributable to the shareholders (excluding extraordinary items) of New Culture in any of the fiscal years 2016, 2017 and 2018 are less than the profit target for such fiscal year - RMB60 million, RMB80 million and RMB100 million, respectively, VisionChina Media Group Co. Ltd. will compensate Ledman for the deficiency by returning a certain amount of the Ledman Shares to Ledman. In the event that the Ledman Shares are not sufficient to compensate for such deficiency, VisionChina Media Group Co. Ltd. will be required to pay compensation in cash. The compensation amount will be calculated based on a pre-determined formula and subject to an aggregate cap in an amount equal to the amount of the total consideration for the New Transaction.

We intend to sell the remaining 51% of our equity interests in New Culture, but we have not entered into a definitive agreement as of the date of this report.

The nominee shareholders of our consolidated affiliated entities are Limin Li, Yangqing Yang, Qijun Men and Haifeng Wang. The business relationship between us and Limin Li and his affiliates is set forth in "Item 7. Major Shareholders and Related Party Transactions — B. Related Party Transactions — Transactions with Affiliated Companies of Limin Li". Neither Yanqing Liang nor her affiliated companies have any business relationship with us. Qijun Men and Haifeng Wang are individual shareholders of Beijing Eastlong Advertising. Qijun Men and Haifeng Wang are not shareholders of VisionChina and do not have any business relationship or transactions with us.

Our principal executive offices are located at 1/F Block No. 7, Champs Elysees, Nongyuan Road, Futian District, Shenzhen 518040, People's Republic of China. Our telephone number at this address is (86 755) 8293-2222 and our fax number is (86 755) 8298-1111. Our registered office in the Cayman Islands is located at the offices of Maples Corporate Services Limited, P.O. Box 309, Ugland House, South Church Street, George Town, Grand Cayman KY1-1104, Cayman Islands, and British West Indies. Our principal website is www.visionchina.cn. The information contained on our website is not a part of this annual report.

Principal Capital Expenditures

We had capital expenditures of US$1.5 million, US$2.2 million and US$15.3 million for the years ended December 31, 2013, 2014 and 2015, respectively. In 2013, our capital expenditures were made primarily to acquire digital television displays and related equipment for our network. In 2014 and 2015, we made our capital expenditures primarily to purchase Wi-Fi devices and equipment related to our public transit Wi-Fi network. The digital television displays we acquired have an estimated useful life of five years and Wi-Fi related devices and equipment have useful lives of five years.

As of December 31, 2015, the estimated average remaining useful life of our digital television displays is approximately 2.5 years. We believe that our existing digital television displays and Wi-Fi devices, with cost value of US$15.6 million as of December 31, 2015, will not become technologically obsolete before the end of their respective useful lives. Therefore we do not expect significant capital expenditure for replacement of digital television displays in 2016.

Our capital expenditures on digital television displays were primarily funded by proceeds from issuance of our common shares, proceeds from bank loans for the years ended December 31, 2013, 2014 and 2015. Our capital expenditures on Wi-Fi devices were primarily funded by proceeds received from capital injection from minor shareholders of our subsidiary engaging in Wi-Fi business for the year ended December 2014 and 2015.

We expect our capital expenditures in 2016 primarily to consist of purchases of Wi-Fi devices as we continue to expand our public transit Wi-Fi network. We believe that we will be able to fund these equipment purchases from our internal cash reserves or fund raised from external investors and we do not anticipate that these obligations will have a material impact on our liquidity needs.

B. Business Overview

Overview

Based on our number of displays, we believe that we operate the largest out-of-home advertising network using real-time mobile digital television broadcasts to deliver content and advertising on mass transportation systems in China. Due to PRC regulatory restrictions on foreign investments in the advertising and mobile digital television industries, we operate our advertising business in China through our consolidated affiliated entities. Our relationships with our consolidated affiliated entities and their shareholders are governed by a series of contractual arrangements that allow us effectively to control, and derive substantially all of the economic benefits from, our consolidated affiliated entities. Our mobile digital television advertising network, or our network, which delivers real-time content provided by the local television stations in addition to advertising, differentiates us from other out-of-home advertising networks in China, and we believe this facilitates our future expansion into different advertising media platforms. Our advertising network consists of digital television displays located on buses and in subway trains and on subway platforms that receive mobile digital television broadcasts of real-time content and advertising. We also operate various closed-circuit advertising digital displays on certain subway platforms and in subway trains in Beijing, Chongqing, Nanjing and Shenzhen. As of December 31, 2015, our network and supplemental subway advertising platform covered 19 cities in China and consisted of approximately 88,844 displays. In addition, we have expanded the geographic reach of our advertising operations by purchasing advertising time on existing mobile digital television networks in cities outside of our network to place advertisements to meet our clients’ demands.

We believe that our network delivers substantial value to our advertising clients by reaching targeted mobile audiences in an enclosed environment conducive to capturing their attention. We also believe that the combination of our advertising content along with real-time news and stock quotes, weather and traffic updates, sports highlights and other programs displayed on our network makes the audience more receptive to the advertisements on our network and ultimately helps make the advertisements more effective for our advertising clients. In addition, the real-time broadcasting capability of our network allows us to utilize our network to disseminate public-interest messages and programs that promote the general welfare of society and other urgent messages during emergency situations such as typhoons, earthquakes or other events that concern public safety.

We currently place our digital displays primarily on buses and subways. As many urban areas in China face increasing traffic congestion, many people endure a long average daily commute time. Therefore, we believe that our network offers our clients the advantages of both traditional television and out-of- home advertising media by capturing the attention of the audience in out-of-home locations with real-time broadcasts of programs.

We principally generate revenues by selling advertising time during breaks in between the programs and certain infomercials on our network and supplemental subway advertising platform. In addition, we have the ability to sell soft advertising time embedded in the programs. We charge our advertising clients by the broadcasting time of the advertisement in each city where they want to place their advertisement. We divide our cities into different price categories based on a variety of factors, including the number of installed displays, population, demand and consumer purchasing power.

We also vary pricing based on the time of day when an advertisement is broadcasted, with higher prices typically during the morning and evening commute periods.

As of December 31, 2015, we use the following business models for our advertising operations in China:

- ***Exclusive agency model*** refers to our arrangements, with terms ranging up to 11 years, in 19 cities: Beijing, Changchun, Changsha, Changzhou, Chengdu, Chongqing, Dalian, Guangzhou, Nanjing, Ningbo, Shenyang, Shenzhen, Suzhou, Taiyuan, Tianjin, Wuhan, Wuxi, Xiamen and Zhengzhou. We have entered into an exclusive advertising agency agreement with the partner local mobile digital television company in 4 cities, namely Beijing, Changsha, Chengdu and Guangzhou, that typically gives us the exclusive right to sell all of the advertising time on our local partner's mobile digital television network located on buses. Our exclusive agency arrangements in Changzhou, Dalian, Suzhou, Wuxi, Xiamen, Zhengzhou, Changchun, Ningbo, Shenyang, Taiyuan and Wuhan that give us the exclusive right to sell a portion of the advertising time do not include sales of advertising time to local advertisers within each respective city. For our supplemental subway advertising operations, we have also entered into exclusive advertising agency agreements with the partner subway authority or partner local mobile digital television company for subway trains and platforms in Beijing, Chongqing, Nanjing and Shenzhen.

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· ***Direct investment model*** refers to our arrangements in 11cities, among which we and a partner local television station, or its affiliate, have formed a jointly-owned mobile digital television operating company in which we hold a noncontrolling equity interest, as well as our arrangement in one city, among which we and a partner local subway authority, or its affiliate, have formed a joint-owned subway television operating company in which we hold a noncontrolling equity interest. We refer to these jointly-owned mobile digital television operating companies as direct investment entities in this annual report. This model gives us the opportunity to work in conjunction with the local television station to provide programs to meet the demands of our audience and advertising clients. In the majority of our direct investment cities, such as Changchun, Changzhou, Chengdu, Chongqing, Dalian, Ningbo, Suzhou, Wuhan, Wuxi and Zhengzhou, we also have entered into an exclusive agency agreement with our direct investment entities to secure the exclusive right to sell advertising time on that network. For the cities where we have not entered into an exclusive agency agreement, we purchase advertising time at commercial prices from our direct investment entities and resell them to our advertising clients.

· ***Outreach agency model*** refers to our operations in other cities where we purchase advertising time from an existing mobile digital television company or other advertising service providers outside of our network, either directly or through an agent at the request of our clients. This model works in conjunction with our network arrangements to extend the reach of our advertising operations to cover substantially all of the major advertising markets in China. As of December 31, 2015, we had advertising time purchase agreements with 82 companies engaged in the business of providing mobile digital television advertising on buses and 14 companies engaged in the business of providing mobile digital television advertising on subways.

Through December 31, 2015, 522 advertisers had purchased advertising time on our mobile digital television advertising network or our supplemental subway advertising platform either directly or through an advertising agent. As a result, our network has attracted a large number of blue-chip companies to purchase advertising time either directly or through an agent. Our top three brand name advertisers, Ctrip, McDonald’s and Chimelong Group accounted in aggregate for approximately 18.5% of our advertising service revenue for the year ended December 31, 2015. We believe the appeal and effectiveness of our advertising network is largely evidenced by the number of advertisers who place repeated and multiple advertising campaigns on our network. We generated advertising service revenues of US$103.1 million, US$102.4 million and US$74.6 million including continuing and discontinued operations for the years ended December 31, 2013, 2014 and 2015, respectively. We incurred net losses attributable to our shareholders of US$24.0 million, US$31.1 million and US$20.4 million for the years ended December 31, 2013, 2014 and 2015, respectively.

Our Advertising Network

As of June 30, 2016, our network and supplemental subway advertising platform covered 15 cities in China. The following map and tables illustrate the geographic scope of our mobile digital television advertising network and supplemental subway advertising platform as of June 30, 2016:

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Our Mobile Digital Television Advertising Network Cities	Exclusive Agency	Direct Investment
Beijing Bus(1)	ü	
Changchun(2)	ü	ü
Changzhou(3)	ü	ü
Chengdu	ü	ü
Dalian(4)		ü
Guangzhou	ü	
Ningbo(5)	ü	ü
Suzhou(6)		ü
Taiyuan(7)	ü	
Wuhan(8)	ü	ü
Wuxi(9)	ü	ü
Xiamen(10)	ü	
Zhengzhou(11)	ü	ü

(1) Our exclusive agency arrangement for Beijing Bus gives us the exclusive right to sell a portion of the advertising time on Beijing's bus mobile digital television network to advertisers, excluding sales of advertising time to advertisers from Beijing, from January 1, 2015.

(2) Our exclusive agency arrangement in Changchun gives us the exclusive right to sell a portion of the advertising time on Changchun's mobile digital television network to advertisers, excluding sales of advertising time to advertisers from Changchun, from July 1, 2014.

(3) Our exclusive agency arrangement in Changzhou gives us the exclusive right to sell a portion of the advertising time on Changzhou's mobile digital television network to advertisers, excluding those from Changzhou, from March 5, 2010.

(4) Our exclusive agency arrangement in Dalian gives us the exclusive right to sell a portion of the advertising time on Dalian's mobile digital television network to advertisers, excluding those from Dalian, from November 1, 2012 to October 30, 2015. We terminated the exclusive agreement in Dalian on June 30, 2016.

(5) Our exclusive agency arrangement in Ningbo gives us the exclusive right to sell a portion of the advertising time on Ningbo's mobile digital television network, excluding sales of advertising time to advertisers from Ningbo.

(6) Our exclusive agency arrangement in Suzhou gives us the exclusive right to sell a portion of the advertising time on Suzhou's mobile digital television network, excluding sales of advertising time to advertisers from Suzhou.

(7) Our exclusive agency arrangement in Taiyuan gives us the exclusive right to sell a portion of the advertising time on Taiyuan's mobile digital television network, excluding sales of advertising time to advertisers from Taiyuan.

(8) Our exclusive agency arrangement in Wuhan gives us the exclusive right to sell a portion of the advertising time on Wuhan's mobile digital television network to advertisers excluding sales of advertising time to advertisers from Wuhan, from April 1, 2014.

(9) Our exclusive agency arrangement in Wuxi gives us the exclusive right to sell a portion of the advertising time on Wuxi's mobile digital television network to advertisers, excluding sales of advertising time to advertisers from Wuxi.

(10) Our exclusive agency agreements in Xiamen give us the exclusive rights to sell a portion of the advertising time on Xiamen's mobile television network to advertisers, excluding those from Xiamen.

(11) Our exclusive agency agreements in Zhengzhou give us the exclusive rights to sell a portion of the advertising time on Zhengzhou's mobile television network from January 1, 2013 to December 31, 2015, excluding sales of advertising time to advertisers from Zhengzhou.

Our exclusive advertising agency arrangement for the Shanghai subway, which was acquired through our acquisition of Digital Media Group, gave us the exclusive right to sell all of the advertising time on the mobile digital television network in 13 lines of the Shanghai subway from January 2, 2010. We terminated the exclusive advertising agency agreement in Shanghai for 13 lines effective September 1, 2012. We terminated the exclusive advertising agency agreement in Beijing subway for 4 lines (lines 1, 2, 3 and the Batong line) effective September 1, 2014. We terminated the exclusive advertising agency agreement for the Guangzhou subway with Guangzhou metro Television Co., Ltd., effective November 1, 2014.

Our Mobile Digital Television Advertising Network Cities	Exclusive Agency	Direct Investment
Beijing (two subway lines)(1)	ü	
Chongqing(2)	ü	ü
Shenzhen (line 4 of the Shenzhen subway)(3)	ü	
Shenzhen (three subway lines)(4)	ü	
Tianjin	ü	
Nanjing (line 2 and southern extension of line 1)(5)	ü	

(1) Our exclusive agency arrangement in Beijing on our supplemental subway advertising platform gives us the exclusive right to sell all of the advertising time on the television platform in subway line 4 and the Daxing line of the Beijing subway.

(2) Our arrangements in Chongqing give our direct investment entity the exclusive right to sell all of the advertising time on the television platform in Chongqing's light rail lines 1, 2 and 3. Our direct investment entity also entered into an exclusive arrangement with us in April 2011 which gives us the exclusive right to sell all of the advertising time on the television platform in Chongqing's light rail line 2.

(3) Our exclusive agency arrangement for Shenzhen line 4 gives us the exclusive right to sell all of the advertising time on the television platform in line 4 of the Shenzhen subway.

(4) In March 2011, we signed an exclusive agency arrangement with Shenzhen subway, which gives us the exclusive right to sell all of the advertising time in subway platforms in line 1, and in subway platforms and subway trains on

lines 2 and 5 from July 1, 2011 to June 30, 2016.

(5) Our exclusive agency arrangements in Nanjing give us the exclusive right to sell all of the advertising time on the television platform in line 2 and in the southern extension of line 1 of the Nanjing subway for a period of ten years starting from May 28, 2010.

Our mobile digital television advertising network and supplemental subway advertising platform include digital displays installed in the mass transportation systems of 19 cities around China as of December 31, 2015. Those digital television displays in our mobile digital television advertising network receive real-time programs broadcast by local television stations on mobile digital television frequencies. The digital television screens in our supplemental subway advertising platform receive programming transmitted through closed circuit digital networks. As of December 31, 2015, our mobile digital television advertising network and supplemental subway advertising platform consisted of approximately 88,844 digital displays.

We believe that our network bridges the gap between traditional television advertising and other out-of-home advertising networks by combining the advantages of each medium. Our advertising network captures the attention of the audience with real-time broadcasts of programs and also reaches the audience in out-of-home locations such as mass transportation systems. Similar to traditional television broadcasts, our network delivers real-time news and stock quotes, sports and other entertainment programs for some of the total broadcast time and advertising content during short breaks between the programs.

Our advertising network and supplemental subway advertising platform operating under the exclusive agency model in Beijing, Guangzhou and Shenzhen accounted in the aggregate for approximately 65.6% of our advertising service revenue for the year ended December 31, 2015. We entered into exclusive agency agreements with (1) Beijing Beiguang Media Mobile Television Co., Ltd. on October 13, 2006 for a term of ten years and seven months, (2) Guangzhou Zhujiang Mobile Multimedia Information Co., Ltd. on July 26, 2007 for a term of eight years, (3) Shenzhen Metro Group Company Limited on March 15, 2011 for a term of five years and (4) MTR (Shenzhen) Company Limited on April 21, 2010 for a term of seven years.

As of December 31, 2015, according to the typical terms of the exclusive agency agreements:

- We typically pay a pre-determined media cost each year to the mobile digital television company to receive the exclusive right to place advertisements on that network.

- We have the responsibility to invest in new digital television displays and install the displays in new buses in Beijing, Guangzhou and Nanjing.

For our supplemental subway advertising operations acquired in connection with our acquisition of Digital Media Group, we are responsible for installing displays in the subway trains and platforms in Beijing (line 4), Chongqing, and Tianjin, as well as displays in the subway trains on line 2 in Nanjing and the southern extension of line 1, and we are responsible for upgrading displays in Nanjing. Most of these displays were installed and upgraded prior to our acquisition of Digital Media Group.

- We either sign a contract directly with the local mass transportation companies, or our local partner or our direct investment entity signs the contract with the local mass transportation companies and assigns to us the right to install displays.

- Our local partner or our direct investment entity makes the investment to construct the broadcasting infrastructure and arranges the necessary approvals from relevant regulatory agencies.

- Our local partner or our direct investment entity remains responsible for all of the broadcast programs aside from advertising content, but we may provide suggestions for the purpose of maximizing the effectiveness of our advertising network.

In cities where a local television station has already created a mobile digital television company, we generally prefer to expand our cooperation by engaging in an exclusive agency agreement. These exclusive arrangements allow our local partner to focus on the programming and operation of the mobile digital television network without worrying about generating advertising revenues. Our pre-determined payment of the media cost each year guarantees our local partner a steady stream of income, and our ability to place advertisements from local, national and international clients may enhance the prestige and public perception of the local mobile digital television network. In addition, we generally work closely with our local partner in the operation of the network and may provide suggestions regarding programming on the network.

Our Direct Investment Cities

As of December 31, 2015, we operated our mobile digital television advertising network under the direct investment model in nine cities: Changchun, Changzhou, Chengdu, Dalian, Ningbo, Suzhou, Wuhan, Wuxi and Zhengzhou. We also operated our supplemental subway advertising platform under the direct investment model in Chongqing. In these ten cities, in addition to primary installations of digital television displays on buses, subway platforms or subway trains, we also have displays installed in buildings that receive digital television broadcasts from our mobile digital television advertising network in Changchun, Dalian, Suzhou, Wuhan and Wuxi. Under our direct investment model, we form an operating company together with a local television station or subway company authorized to operate the digital television network or supplemental subway advertising platforms in that city. Due to regulatory considerations, we typically own 49% of the direct investment entity and our partner owns the other 51%, but in Wuxi we own 14%,. Aside from the arrangements in respect of our direct investment entities in Wuxi, the remaining nine direct investment agreements usually contain the following provisions:

- We appoint the general managers of most of the direct investment entities.
- We train a locally recruited sales force.
- We purchase advertising time from our direct investment entity and place advertisements for broadcasting on the local network.
- We sell assembled digital television displays to the direct investment entity.
- The local television station obtains the necessary approvals for operating the mobile digital television station.
- The local television station provides the transmission equipment for broadcasting the advertising and programming in that city.
- The direct investment entity enters into contracts with local mass transportation companies to install our digital television displays in buses and other suitable locations.
- The local television station provides the news, entertainment and other programs for broadcasting on the direct investment entity's network, and the local television station ensures that the programs conform to applicable PRC content laws and regulations.

In cities without mobile digital television operations, we typically attempt to form an operating company together with the local television station authorized to operate the mobile digital television network in that city. The direct investment model allows us to secure that particular city for a long period of time because our contractual arrangements with the local television stations to form the direct investment entities have durations ranging from 10 to 50 years. The direct investment model also allows us to be involved in the process of determining the mixture of entertainment programs and advertising content broadcast on that network. In addition, the direct investment model allows us to expand into new media platforms in the future using mobile digital television broadcasting technology.

We have entered into exclusive agency agreements with our direct investment entities sell all of or a portion of the advertising time on the mobile digital television network controlled by these direct investment entities. These exclusive agency agreements grant us the exclusive right to sell the advertising time on the direct investment network typically for a term ranging from four years to eight years. Under these arrangements, we realize all of the advertising revenues and pay a pre-determined media cost to the direct investment entity. Under this type of contract, the direct investment entity effectively transfers the operational risk to us and enjoys a guaranteed stream of revenues. We believe that the terms of these exclusive agency agreements were negotiated on an arm's length basis. See "Item 7. — Major Shareholders and Related Party Transactions — B. Related Party Transactions — Exclusive Agency Agreements with Our Direct Investment Entities".

Our Outreach Agency Cities

We extend our geographic reach beyond the existing scope of our network by purchasing advertising time on mobile digital television networks or other media either directly or through an agent in cities outside of our network at the request of our advertising clients.

Our outreach agency model allows our advertising operation to have a larger geographic presence and to provide the local network with advertising from national or international clients, which may heighten the prestige and public perception of the local network. If our demand for advertising time on the local network grows to a sufficient threshold, we may attempt to engage the local network in an exclusive agency agreement to broaden our cooperation.

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Advertising Clients, Sales and Marketing

Our Advertising Clients

The quality and broad geographic coverage of our mobile digital television advertising network has attracted a broad base of international and domestic advertisers. In 2015, 1,205 advertisers have purchased advertising time on our mobile digital television advertising network or our supplemental subway advertising platform either directly or through an agent. We regularly collaborate with some of the largest global advertising agencies, or 4A agencies, to place advertisements for their clients. We have the ability to place a client’s advertisements in one or more cities, both within and beyond our network, according to their demands. As of December 31, 2015, we have placed advertisements in over 90 cities across China. As a result, our network has attracted a large number of blue-chip companies to purchase advertising time either directly or through an agent pursuant to contracts. Our top three brand name advertisers, Ctrip, McDonald’s and Chimelong Group , accounted in the aggregate for approximately 18.5% of our advertising service revenue for the year ended December 31, 2015. We believe the appeal and effectiveness of our advertising network is largely evidenced by the number of advertisers who place repeated and multiple advertising campaigns on our network.

The following table sets forth a breakdown of our advertisers by industry for the year ended December 31, 2015:

Industry	% of total advertising service revenues	
Food, Beverage, Restaurants, Wines and Spirits	35.0	%
Tourism	17.4	%
IT and Internet	15.0	%
Household Products	8.9	%
Pharmaceutical and Nutritional Supplements	8.1	%
Fashion and Accessories	2.0	%
Electronics and Digital Products	2.5	%
Others	11.1	%

Sales and Marketing

As of December 31, 2015, we employed an experienced advertising sales force of 208 employees. We also engaged consultants to assist with our marketing efforts. In addition to our direct sales force, we also sell our advertising time through third party advertising agencies such as the 4A agencies. We provide in-house education and training to our sales force to ensure that they provide our current and prospective clients with comprehensive information about our services, the advantages of using our mobile digital television advertising network as a marketing channel and relevant information regarding the advertising industry as a whole. We organize our sales force into teams to provide specialized coverage for geographic regions. We believe that our regional coverage teams provide quality service for our advertisers and allow our sales and marketing teams to focus on building close relationships and on staying current on regional market trends. We also market our advertising services from time to time by placing advertisements on our own network.

We believe our advertisers derive substantial value from our ability to provide advertising services targeted at specific segments of consumer markets. Since market research is an important part of evaluating and demonstrating the effectiveness and value of our business to advertisers, we routinely provide market research reports to our clients as part of our marketing efforts. We conduct market research, consumer surveys, demographic analysis and other advertising industry research for our internal use to evaluate new and existing advertising channels. We also purchase or commission studies containing relevant market study data from reputable third-party market research firms, such as CTR Market Research. We typically consult such studies to assist us in evaluating the effectiveness of our network for our advertisers. A number of these studies contain research on the numbers and socio-economic and demographic profiles of the users of the mass transportation systems in the cities where we operate.

Starting from May 2008, we agreed with CTR Market Research, the largest media and market research company in China, to jointly develop the first media evaluation standard for China's mobile digital televisions on public transportation systems. China has experienced rapid growth in the mobile digital television market in recent years, but the industry lacks a standardized and authoritative audience measurement index which advertisers and media owners may use to judge the efficacy and value of advertisements placed on mobile digital television networks on public transportation systems. The creation of third-party evaluation standards will help provide common criteria for comparing mobile digital television with traditional television, which is expected to help elevate the status of the emergent mobile digital television industry.

Through June 2016, we, through our consolidated affiliate Shenzhen Qianhai VisionChina Mobile Interactive Co., Ltd. ("Qianhai Mobile"), have secured exclusive concession rights for bus Wi-Fi services in 25 cities across China, including Shanghai, Shenzhen, Guangzhou and Tianjin, covering approximately 80,000 buses. Currently, Qianhai Mobile provides free Wi-Fi Internet services on approximately 35,000 buses under the brand name "VIFI," spanning over 12.0 million commuters and providing over 6.0 million Wi-Fi service sessions per day. We will continue to expand our mobile internet initiative to further expand its national footprint and seek additional opportunities to monetize Wi-Fi traffic in the near term.

Advertising Contracts

The standard advertising package includes advertising time on our network in a particular city on either the mobile digital television advertising network or our supplemental subway advertising platform, and our clients often combine standard advertising packages to purchase advertising time across multiple cities. Our sales are made pursuant to written contracts with commitments ranging from one week to one year. Similar to traditional television advertising, we primarily sell advertising time during breaks between programs and we also sell soft advertising embedded into programs. The majority of our customers purchase the advertising time during breaks between programs and we often provide flexible durations of time to meet the specific demands of our advertising clients. Our clients may choose to broadcast these advertisements during specific times of the day or throughout the entire day. Our advertising rates vary depending on the time of day, the broadcast city and the receiving platform. We divide our cities into different categories and charge rates consistent with the advertising market in that city. We evaluate the listed price at the end of each quarter against the prevailing advertising rates of our competitors in each city and determine any adjustments to be made based on prevailing market trends. The price we charge for advertising time differs in each city as a function of the size of our network, the quality and mixture of the programming, socioeconomic conditions and other prevailing market considerations.

We generally require our clients to submit advertising content at least five days prior to the first broadcast date for compliance review. We also reserve the right to refuse to disseminate advertisements that are not in compliance with content requirements under PRC laws and regulations.

Programming

The mobile digital television network in each city determines its mixture of programming independently from the others. For our direct investment cities, the direct investment entity exercises direct control over the mixture of programming and advertising, and for our exclusive agency cities, we typically work closely with our partner network to enhance the effectiveness of the advertisements broadcasted. The mobile digital television network broadcasts real-time news and stock quotes, sports highlights and other entertainment programs for most of the time and we use short breaks between these programs to broadcast advertising in order to maximize the effectiveness of our advertising network.

We provide suggestions for some of the programs to be broadcast in our direct investment cities, and the local television station produces the remaining programs by editing the material used for local television station broadcasts. Our ability to distribute programs produced by the local television station in one city to other cities in our network gives us the opportunity to syndicate entertaining programs across all of our local networks and to attract larger audiences to our network. Our real-time broadcast platform also allows local television stations to provide real-time news and stock quotes and entertainment programs.

Relationships with Location Providers

Establishing and maintaining long-term relationships with local mass transportation companies is critical to our business. We have entered into the following arrangements to secure rights to install or use the displays on mass transportation systems in many cities across China.

Our Exclusive Agency Cities

In our exclusive agency cities, the local mobile digital television company typically negotiates directly with the bus companies or other local mass transportation service providers for a placement agreement to secure the right to install digital television displays and then exclusively assigns that right to us. In our exclusive agency cities that are also our direct investment cities, the direct investment entity usually negotiates directly with the bus companies or other location providers for a placement agreement to secure the right to install and operate the digital television displays. In Guangzhou, which is an exclusive agency city, our local affiliate has entered into agreements directly with bus companies to install and operate the mobile digital television displays. In Changzhou, which also is an exclusive agency city, we have entered into an agreement directly with the local bus company to install and operate the mobile digital television displays. For our supplemental subway advertising operations, we have entered into exclusive agency agreements with the local subway authorities or their related entities.

Our Direct Investment Cities

With the exception of Changzhou, in our direct investment cities, the direct investment entity negotiates directly with the bus companies or other location providers for a placement agreement to secure the right to install the digital television displays.

Technology

Our digital television advertising network uses digital television technology. This technology provides a communication method for broadcasting and receiving moving pictures and sound by using digital signals, which provides better throughput compared to the analog signals used by analog televisions. The digital television broadcasts use digital modulation data, which uses an algorithm to digitally compress the data. The transmission equipment broadcasts a digital bit stream wirelessly over an analog bandpass channel to television receivers that decode the digital signal. Our digital television displays installed on buses contain a receiver and decoder component that performs this task and displays the broadcasted content. This technology enables the uninterrupted reception of audio visual signals while in motion, thereby allowing the display of real-time programs on moving buses. Our supplemental subway advertising platform also uses digital displays, and we transmit the advertisements and information from a broadcast center digitally, through a local area closed circuit network, to the displays.

Suppliers

The primary hardware required for operating our business comprises digital television displays, mobile digital television receivers, speakers and other related equipment that we use in our mobile digital television advertising network. Maintaining a steady supply of our digital television displays is important to our operations and the growth of our mobile digital television advertising network. We purchase our digital television displays and receivers from third party manufacturers who build these components according to our specifications. We select component suppliers based on price and quality. As there are several other qualified alternative suppliers for our equipment, our obligation to our current suppliers is not exclusive. We have never experienced any material delay or interruption in the supply of our digital television displays.

Competition

We compete with other advertising companies in China including companies that operate out-of-home advertising media networks such as Focus Media Information Technology Co., Ltd., AirMedia Group Inc., Towona Mobile Digital Co., Ltd. and Bus Online Media Co., Ltd. We also compete with traditional television stations for advertising spending. We compete for advertising clients primarily on the basis of network size and coverage, location, price, the range of services that we offer and our brand name. We also compete for overall advertising spending with other companies that offer to provide advertising through alternative media, such as the Internet, street furniture, billboards, frame and public transport advertising companies, and with traditional advertising media, such as newspapers, magazines and radio. Some of our competitors operate digital television advertising networks installed on mass transportation systems primarily playing prerecorded content saved on compact flash drives or DVDs.

In the future, we also may face competition from new entrants into the out-of-home television advertising network sector. In addition, the establishment of wholly foreign owned advertising companies has been permitted since December 10, 2005. China's ongoing deregulation of its advertising market will likely expose us to greater competition with existing or new advertising companies in China, including PRC subsidiaries of large well-established multi-national companies that may have significantly more resources than we do.

We face barriers-to-entry in the mobile digital television advertising industry as a result of competition. Many smaller mobile digital television companies operate in cities outside of our network pursuant to exclusive agreements, and we expect to encounter barriers-to -entry as we attempt to expand our network into these cities. For example, in Shanghai, Shanghai Oriental Pearl Mobile Television Inc. operates one of the largest mobile digital television advertising networks using broadcasting technology. As a result, we face barriers-to-entry to expand our network to the bus platform in Shanghai. In addition, we will face barriers-to -entry to the extent that we expand our out-of-home advertising network to different media platforms, such as in-building displays or large outdoor LED displays, as other companies may have already signed exclusive placement agreements to secure the most desirable locations. These barriers-to -entry may limit our ability to expand our network rapidly in the cities where we already operate and into new cities.

Intellectual Property

Our intellectual property consists of our brand, trademarks and design patents related to some of the equipment we use. As of December 31, 2015, we held seven patents and copyrights issued in the PRC.

Insurance

We only maintain insurance coverage for our automobiles. We do not maintain any property insurance policies covering equipment and facilities for losses due to fire, earthquake, flood or any other disaster. Consistent with customary industry practice in China, we do not maintain business interruption insurance or key employee insurance for our executive officers. Uninsured damage to any of our equipment or buildings or a significant product liability claim could have a material and adverse effect on our results of operations.

Regulation

This section sets forth a summary of the most significant regulations or requirements that affect our business activities in China or our shareholders' right to receive dividends and other distributions from us.

Regulations on the Television Industry

Television content

According to the *Regulations on the Administration of Radio and Television* promulgated by the State Counsel on August 11, 1997, and the *Provisions on the Administration of Radio and Television Program Production* promulgated by the SARFT on July 19, 2004, entities engaging in the production of television programs, such as feature programs, general programs, drama series and animations, and the trading activities and agency services on the copyrights of such programs must first obtain preliminary approval from the SARFT or its provincial branches. The entity must then register with the SAIC to obtain or update its business license. The television programs aired on the mobile digital television networks on which we rely in operating our advertising network are produced by our local operating partners. Our local operating partners are subject to regulations on television content. Since we rely on our business relationships with our local operating partners to operate our advertising network, our business may be indirectly affected by any changes to the regulations on television content.

Foreign investment in television operations

According to the *Regulations on the Administration of Radio and Television promulgated by the State Council on August 11, 1997, the Detailed Procedures for the Financing of Radio, Film and Television Conglomerates* promulgated by the SARFT on December 20, 2001, and the *Measures for the Administration of Examination and Approval of Radio Stations and Television Stations* promulgated by the SARFT on August 18, 2004, television stations or television channels may only be established and operated by the government. Pursuant to the *Several Decisions on the Entry of Private Capital into the Culture Industry*, or the Decisions, issued by the State Council on April 13, 2005, and the *Several Opinions on Foreign Investment in the Culture Sector*, or the Opinions, jointly issued by the SARFT, the Ministry of Culture, the General Administration for Press and Publication, the National Development and Reform Commission and the Ministry of Commerce on July 6, 2005, foreign investors are prohibited from establishing or operating television stations or transmission networks, from broadcasting television programs, and from operating television channels. Under the Opinions and the *Circular on the Further Strengthening of the Supervision of Radio and Television Channels*, or the Supervision Circular, promulgated by the SARFT on August 4, 2005, foreign investors are prohibited from investing in or operating television channels.

We operate our business through our contractual arrangements with our consolidated affiliated entities, which are PRC companies. Our consolidated affiliated entities in turn rely on their contractual arrangements with our local operating partners to broadcast advertisements and programs. All of our local operating partners that engage in broadcasting have obtained the licenses and approvals that are required in order to broadcast television programs lawfully. Our PRC legal counsel has advised us that our business operations do not violate any restrictions on foreign investment in television operations.

Foreign investments in television content production

According to the Catalogue of Foreign Investment Industries, amended on December 24, 2011 and effective as of January 30, 2012, foreign investors are prohibited from owning equity interests in companies that are engaged in producing radio and television programs or drama series.

Under our contractual arrangements with our local operating partners, our local operating partners are responsible for the production of television content. We or our direct investment entities may provide suggestions with respect to the production or sourcing of the content and advertisements. The content is subject to review and approval by the television stations which broadcast such content. Our consolidated PRC affiliates engaging in advertising content production have obtained the requisite licenses and approvals issued by the local SARFT.

Mobile digital television

On March 17, 2014, the SARFT promulgated the Notice Concerning Regulating the Development of Mobile Digital Television, or the March 2014 Notice. The March 2014 Notice regulates mobile digital television operations and mainly comprises the following provisions:

- the mobile digital television business shall be operated by municipal or provincial radio and television stations, and satisfy the following requirements:

- mobile digital television operations shall comply with the overall plan and layout of mobile digital television determined by the SARFT;

- mobile digital television operations shall be conducted in cities with a relatively high level of economic and social development, having no less than 2,000 buses in total, or a subway or light railway transportation system;

- the equity fund, equipment, worksite and professional personnel required for the operations of mobile digital television shall be commensurate with the relevant business scale;
- there shall be a sound system in place for the review, broadcasting and monitoring of programs on mobile digital television;
- the business operator shall have program resources which are in compliance with relevant state regulations and commensurate with its business scale;
- the technical system shall meet the industrial and technical standards required by relevant state regulations;
- permits to transmit radio and television programming shall be obtained for the integrated signal transmission platform, which shall be regulated and qualified by the SARFT;
- mobile digital television operations that are newly conducted after the March 2014 Notice shall obtain approval from the SARFT;
- mobile digital television operations shall comply with the Measures for the Administration of Advertisement Broadcasting by Radio and *Television* promulgated by the SARFT, including restrictions on total advertising time, frequency, content and format of advertisements;
- the national digital mobile television standards have been established and all mobile digital television operations shall comply with such national standards; and
- the *Notice Concerning Experimental Mobile Digital Television* previously promulgated by the SARFT, or the March 2006 Notice, has been repealed as of March 17, 2014.

These regulations apply directly to our local mobile digital television operating partners because they are in the business of operating mobile digital television networks. The SARFT and its local branches have the authority to order any mobile digital television operators who have violated the March 2014 Notice or other applicable laws or regulations to stop operating their mobile digital television networks.

The SARFT or its local branches may order any of our local operating partners to stop their operations. If any of our local operating partners is ordered to stop their mobile digital television operations, we may not be able to continue our advertising business in the affected city through other media or channels at acceptable costs, or at all. In which case, our business, financial condition and results of operations would be materially and adversely affected.

The March 2014 Notice also provides that the local SARFT branches have the authority to order any mobile digital television operators who have violated the March 2014 Notice to rectify or stop operating their mobile digital television networks. We believe that the March 2014 Notice applies to the mobile digital television operations of our local operating partners.

The National Standard of Frame Structure and Channel Code and Modulation of Digital Television Ground Broadcasting Transmission System, or the National Standard, was approved by the Standardization Administration of the PRC on August 18, 2006, and became effective on August 1, 2007. Under the March 2006 Notice, all of our local operating partners must adopt the National Standard for their mobile digital television operations. In addition, the SARFT officially issued a notice requiring some of our local operating partners and direct investment entities to complete the adoption of the National Standard by June 30, 2010. See "Item 3. Key Information — D. Risk Factors — Risks Related to Doing Business in China" and "— Risks Related to Our Company and Our Industry — A significant portion of the mobile digital television networks of our direct investment entities and the digital television broadcasting infrastructure of our local operating partners currently does not meet newly adopted PRC national standards for mobile digital television operations. We will be required to spend significant capital and other resources to upgrade the existing digital television broadcasting infrastructure of our local operating partners in order to meet these new national standards, which expenditures could materially and adversely affect our business, financial condition and results of operations."

The SARFT issued a notice to provincial level SARFT branches in China in July 2007 regarding mobile digital television operations. The notice contains provisions regarding: (i) the authority of local SARFT branches to control program production and broadcasting on the mobile digital television networks; (ii) the development of the mobile digital television business; (iii) permission for non-state-owned enterprises to form joint ventures with the SARFT-affiliated entities to engage in advertising, marketing, program production and equipment installation services in connection with mobile digital television operations as long as the SARFT-affiliated entities control at least 51% of the equity interests in such joint ventures; (iv) the transition to the National Standard for mobile digital television operations; and (v) the requirement that each local SARFT branch inspect the mobile digital television operations within its jurisdiction. We do not own more than a 49% equity interest in any of the direct investment entities that we have jointly established with relevant local SARFT-affiliated entities.

The SARFT issued a notice regarding strengthening the administration of public audio/visual media on public transportation vehicles and in public buildings on December 6, 2007. According to this notice, broadcasting programs on audio/visual media located on public transportation vehicles and in public buildings using television, Internet or other broadcasting technology must first obtain approval from the SARFT. In addition, programs are prohibited from being broadcast on audio/video media located in public transportation vehicles, public buildings and other indoor and outdoor places using compact flash drives or DVD technology, as only advertisements are allowed to be shown on media using these technologies.

Regulations on the Advertising Industry

Foreign investments in advertising

Under the Catalogue and the Administrative Provision on Foreign Investment in the Advertising Industry, jointly promulgated by SAIC and the Ministry of Commerce on March 2, 2004, foreign investors can invest in PRC advertising companies either through wholly owned enterprises or joint ventures with Chinese parties. Since December 10, 2005, foreign investors have been allowed to own up to 100% of the equity interests in PRC advertising companies. However, foreign investors must have at least three years of direct operations outside of the PRC in the advertising industry as their core business. This requirement is reduced to two years if foreign investment in the advertising company is made in the form of a joint venture. Foreign-invested advertising companies can engage in advertising design, production, publishing and agencies, provided that certain conditions are met and necessary approvals are obtained.

Our advertising business is currently provided through contractual arrangements with our consolidated affiliated entities in China, which hold the licenses that are required in order to provide advertising services in China. One of our consolidated affiliated entities, VisionChina Media Group, is currently owned by Limin Li and Yanqing Liang. We do not have any equity interest in VisionChina Media Group, but we receive economic benefits from it through various contractual arrangements. See "Item 7. Major Shareholders and Related Party Transactions — B. Related Party Transactions." In January 2010, we completed our acquisition of Digital Media Group, which operated and continues to operate its advertising business through its consolidated affiliated entity in China, Beijing Eastlong Advertising. Beijing Eastlong Advertising is currently owned by Qijun Men and Haifeng Wang. Digital Media Group does not have any equity interest in Beijing Eastlong Advertising, but receives economic benefits from it and bears economic risks of it through various contractual arrangements. Our consolidated affiliated entities and their subsidiaries directly operate our advertising network, enter into direct investment and exclusive and non-exclusive advertising agency agreements, and sell advertising time to our clients. We have been, and expect to continue to be, dependent on our consolidated affiliated entities and their subsidiaries to operate our advertising business.

Advertising content

PRC laws, rules and regulations that are applicable to advertising set forth certain content requirements for advertisements in China including, among other things, prohibitions on false or misleading content, superlative wording, socially destabilizing content or content involving obscenities, superstition, violence, discrimination or infringement of the public interest. Advertisements for anesthetic, psychotropic, toxic or radioactive drugs are prohibited. There also are specific restrictions and requirements regarding advertisements that relate to matters such as patented products or processes, pharmaceuticals, medical instruments, agrochemicals, foodstuffs, alcohol and cosmetics. In addition, all advertisements relating to pharmaceuticals, medical instruments, agrochemicals and veterinary pharmaceuticals, together with any other advertisements which are subject to censorship by administrative authorities according to relevant laws or regulations, must be submitted to relevant authorities for content approval prior to the advertisements being disseminated.

Advertisers, advertising operators, and advertising distributors are required by PRC advertising laws and regulations to ensure that the content of the advertisements they prepare or distribute is true and in full compliance with applicable law. In providing advertising services, advertising operators and advertising distributors must review the supporting documents provided by advertisers for advertisements and verify that the content of the advertisements complies with applicable PRC laws, rules and regulations. Prior to distributing advertisements that are subject to government censorship and approval, advertising distributors are obligated to verify that such censorship has been performed and that approval has been obtained. Violation of these regulations may result in penalties, including fines, confiscation of advertising income, orders to cease disseminating advertisements, and orders to publish an advertisement correcting the misleading information. In circumstances involving serious violations, the SAIC or its local branches may revoke violators' licenses or permits to operate their advertising business. Furthermore, advertisers, advertising agencies or advertising distributors may be subject to civil liability if they infringe on the legal rights and interests of third parties in the course of engaging in their advertising business.

Under the *Administrative Measures on Radio and Television Advertisement Broadcasting* issued by the SARFT on September 8, 2009, which became effective on January 1, 2010, or the Measures, advertisements relating to certain products and services, including tobacco, certain prescription pharmaceuticals, medical instruments, medical treatments, name analysis and fortune telling, are specifically prohibited from being disseminated. Advertisements relating to certain other products and services, including pharmaceuticals, medical instruments, foodstuffs, cosmetics, agrochemicals, veterinary pharmaceuticals and financial management, are subject to censorship by administrative authorities according to relevant laws or regulations, and approval for such advertisements must be reviewed and examined prior to dissemination. In addition, the Measures restrict and address other types of advertising, including advertisements in political news programs, advertisements for investment consultations or franchising businesses, advertisements for lottery or gambling, and advertisements featuring medical experts in advertisements for pharmaceuticals, medical instruments, medical treatment and health care information. The Measures also limit the length of advertising time in each program and require radio and television broadcasting institutions to establish management systems to operate, review and disseminate advertisements. Violation of these regulations may result in penalties, including warnings, fines, orders to cease disseminating advertisements and orders to publish an advertisement correcting the misleading information. In circumstances involving serious violations, the SARFT or its local branches may revoke violators’ licenses or permits to operate their radio and television businesses.

Tax

Our operating subsidiary and controlled entities are incorporated in the PRC and are governed by the PRC income tax law, which subjects them to the PRC enterprise income tax rate of 25%.

The PRC EIT Law became effective on January 1, 2008. Under the EIT Law and the implementation regulations under the EIT Law issued by the PRC State Council, China has adopted a uniform tax rate of 25% for all enterprises (including foreign-invested enterprises) and revoked the previous tax exemption, reduction and preferential treatments applicable to foreign-invested enterprises. However, there is a transition period for enterprises, whether foreign-invested or domestic, that received preferential tax treatments granted by relevant tax authorities prior to January 1, 2008. Enterprises that were subject to an enterprise income tax rate lower than 25% prior to January 1, 2008 may continue to enjoy the lower rate and gradually transition to the new tax rate within five years. Enterprises that were entitled to exemptions or reductions from the standard income tax rate for a fixed term prior to January 1, 2008 may continue to enjoy such treatment until the fixed term expires. However, if a foreign-invested enterprise had not become profitable before the end of December 2007, a two-year exemption from the enterprise income tax was granted for the period between the time the enterprise becomes profitable and December 31, 2009. According to the implementation regulations, during the transition period, the enterprise income tax rates applicable to CDTC were 20%, 22%, 24%, 25%, 25% and 25% in the years 2009, 2010, 2011, 2012, 2013 and 2014, respectively. Preferential tax treatments may continue to be granted to industries and projects that are strongly supported and encouraged by the state, and enterprises classified as “new and high technology enterprises strongly supported by the state” are entitled to be subject to enterprise income tax at a reduced rate of 15%. VisionChina Media Group was designated as a “new and high technology enterprise strongly supported by the state” in November 2008 and, as a result, was subject to an enterprise income tax rate of 15% for the years 2009 and 2010. In addition, VisionChina Media Group obtained approval from a governmental authority in October 2011 to be recognized as a state-encouraged new and high technology enterprise and therefore was entitled to be subject to a preferential tax rate of 15% for a three-year period from 2011 to 2013. In August 2014, VisionChina Media Group obtained approval from a governmental authority to be recognized as a state-encouraged new and high technology enterprise and therefore is entitled to be subject to a preferential tax rate of 15% for a three-year period from 2014 to 2016, subject to approval from the tax authority at the end of each year. In accordance with a circular issued in December 2010, Beijing Eastlong Technology has been recognized as a state-encouraged new and high technology enterprise starting from 2010, and this status was valid for a period of three years. As such, the effective EIT rates for Beijing Eastlong Technology were 15%, 15%, 15%, 25%, and 25% in the years 2010, 2011, 2012, 2013 and 2014, respectively. One of our operating consolidated affiliated entities established in Luzhou in Sichuan province was recognized as a “local government encouraged company” and was entitled to exemption from the enterprise income tax during 2008 and 2009, and to be subject to a reduced tax rate of 7.5% for the years ended December 31, 2010, 2011 and 2012. This operating subsidiary in Luzhou was subject to tax rates of 15% and 25% in the years 2013 and 2014, respectively. Notwithstanding the standard statutory tax rate of 25%, in 2011, under the direction of a relevant tax authority, one of our operating consolidated affiliated entities, Jiangxi Huashi, applied a deemed-profit-rate method to its annual tax filings for 2011. Pursuant to the deemed-profit-rate method, taxable income for Jiangxi Huashi was deemed to be 16% of revenues. Additional amounts of US$0.1 million and nil would otherwise have been payable if Jiangxi Huashi were not allowed to apply the deemed-profit-rate method to its annual tax filings for the years ended December 31, 2013 and 2014, respectively.

The EIT Law also specifies that enterprises established outside of China whose “de facto management bodies” are located in China are considered “resident enterprises,” and are generally subject to PRC enterprise income tax at the uniform rate of 25% on their global income, including income received from subsidiaries and consolidated affiliates. Under the implementation regulations to the EIT Law issued by the PRC State Council, “de facto management body” is defined as a body that has material and overall management and control over the manufacturing and business operations, personnel and human resources, finances and treasury, and acquisition and disposition of properties and other assets of an enterprise. If we were treated as a resident enterprise for PRC tax purposes, we would be subject to PRC tax on our worldwide income at a rate of 25%.

Furthermore, unlike the *PRC Income Tax Law for Enterprises with Foreign Investment and Foreign Enterprises* that was replaced by the EIT Law, which specifically exempts withholding tax on any dividends payable to non-PRC investors of foreign-invested enterprises, the EIT Law and its implementation regulations issued by the State Council specify that an income tax rate of 10% is normally applicable to dividends payable to non-PRC investors where those dividends derive from sources within China, although such income tax may be exempted or reduced by the State Council or a tax treaty between China and the jurisdiction where the non-PRC investors reside. We are a Cayman Islands holding company and substantially all of our income may be derived from dividends we receive from our operating subsidiary and consolidated affiliates located in China. If we declare dividends from such income, it may be deemed to be derived from sources within China under the EIT Law and be subject to income tax under the EIT Law. If we are required under the EIT Law to pay income tax for any dividends we receive from our subsidiary in China, the value of your investment may be materially and adversely affected. In addition, it is unclear whether dividends paid to our non-PRC shareholders and ADS holders or any capital gains from the transfer of our common shares or ADSs would be treated as income derived from sources within the PRC and thereby subject to PRC tax. If we are required under the EIT Law to withhold PRC income tax on dividends payable to our non-PRC investors that are “non-resident enterprises,” or if you are required to pay PRC income tax on the transfer of our common shares or ADSs, the value of your investment may be materially and adversely affected.

Before January 1, 2012, our advertising revenues were subject to business tax. The PRC government implemented a the VAT Tax Reform which replaced the business tax with VAT on selected sectors including the advertising sector, effective in Shanghai as of January 1, 2012, effective in Beijing as of September 1, 2012, and effective in Shenzhen as of November 1, 2012. Commencing on August 1, 2013, the VAT Tax Reform became applicable to all regions of the PRC. With the adoption of the VAT Tax Reform, the VAT rate on our advertising revenues applicable to our subsidiaries and consolidated variable interest entities is 6% as compared to the 5% business tax rate which was applicable prior to the reform.

In addition, we conduct our advertising business through contractual arrangements with our consolidated affiliated entities, which are currently owned by individuals. If one of our consolidated affiliated entities were to distribute dividends in the future, we would be required to pay taxes at an individual income tax rate of 20% on behalf of our employees who hold interests in that consolidated affiliated entity. Furthermore, business tax liability potentially may arise from the contractual arrangements we have with our consolidated affiliated entities. If we were unable to receive tax-free distributions of earnings from our consolidated affiliated entities, we may need to pay additional taxes upon such earnings distributions.

Regulations on Foreign Currency Exchange

Foreign currency exchange

Pursuant to the Foreign Currency Administration Rules promulgated on and effective as of August 5, 2008, and various regulations issued by the SAFE and other relevant PRC governmental authorities, the Renminbi is freely convertible only to the extent of current account items, such as trade-related receipts and payments, interest and dividends. Foreign currency received under current account items can either be retained or sold to financial institutions engaged in the business of settling or selling foreign exchange without prior approval from the SAFE by complying with relevant regulations. Capital account items, such as direct equity investments, loans, repatriation of investments and investments in stocks and bonds, require prior approval from the SAFE or its local branch before such items are converted from Renminbi into foreign exchange, such as U.S. dollars, and remitted outside PRC. Payments for transactions that take place within the PRC must be made in Renminbi. Foreign currency received in respect of capital account items can be retained or sold to financial institutions engaged in the business of settling or selling foreign exchange only with prior approval from the SAFE. Foreign-invested enterprises may retain foreign exchange in accounts with designated foreign exchange banks subject to a cap set by the SAFE or its local branch.

Foreign exchange registration of offshore investment by PRC residents

Pursuant to SAFE's *Notice on Relevant Issues Concerning Foreign Exchange Administration for PRC Residents to Engage in Overseas Investment and Financing via Speci*