

SECURITY NATIONAL FINANCIAL CORP  
Form SC 13G/A  
May 27, 2015

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

SCHEDULE 13G/A-3

Under the Securities Exchange Act of 1934  
(Amendment No. 3)\*

SECURITY NATIONAL FINANCIAL CORPORATION  
(Name of Issuer)

Class A Common Stock  
(Title of Class of Securities)

814785309  
(CUSIP Number)

February 18, 2015  
(Date of Event which Requires Filing of this Statement)

Check the appropriate box to designate the rule pursuant to which the Schedule is filed:

- Rule 13d-1(b)
- Rule 13d-1(c)
- Rule 13d-1(d)

\* The remainder of this cover page shall be filled out for a reporting person's initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter the disclosures provided in a prior cover page.

The information required in the remainder of this cover page shall not be deemed to be "filed" for the purpose of Section 18 of the Securities Exchange Act of 1934 ("Act") or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

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1 NAMES OF REPORTING PERSONS

Scott M. Quist

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP \*(a) G

(b) G

3 SEC USE ONLY

4 CITIZENSHIP OR PLACE OF ORGANIZATION

U.S.A. Citizen

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SOLE VOTING POWER

NUMBER OF SHARES  
BENEFICIALLY OWNED BY  
EACH REPORTING PERSON  
WITH

Class A common stock – 361,350 shares (1)  
Class C common stock – 562,653 shares (1) (2)  
(Class C common stock is convertible into Class  
A common stock at the ratio of one share of Class C  
common stock to one share of Class A common stock)

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SHARED VOTING POWER

Class A common stock – 2,739,799 shares  
(567,314 shares as trustee of issuer’s Employee Stock  
Ownership Plan (ESOP); 66,334 shares as managing  
partner of Associated Investors; 723,942 shares as trustee of  
issuer’s Non-Qualified Deferred Compensation Plan; and  
1,382,209 as trustee of issuer’s 401(k) Retirement Savings  
Plan)

Class C common stock – 349,766 shares (2)  
(242,974 shares as trustee of issuer’s Employee Stock  
Ownership Plan (ESOP); and 106,792 shares as general  
manager of Associated Investors)

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SOLE DISPOSITIVE POWER

Class A common stock – 361,350 shares (1)  
Class C common stock – 562,653 shares (1)

8

SHARED DISPOSITIVE POWER

Class A common stock – 2,739,799 shares  
(567,314 shares as trustee of issuer’s Employee Stock  
Ownership Plan (ESOP); 66,334 shares as general manager  
of Associated Investors; 723,942 shares as trustee of issuer’s  
Non-Qualified Deferred Compensation Plan; and 1,382,209  
as trustee of issuer’s 401(k) Retirement Savings Plan)

Class C common stock – 349,766 shares (2)  
(242,974 shares as trustee of issuer’s Employee Stock  
Ownership Plan (ESOP); and 106,792 shares as general  
manager of Associated Investors)

9 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

361,350 shares of Class A common stock and 562,653 shares of Class C common stock (Class C common stock is convertible into Class A common stock at the ratio of one share of Class C common stock to one share of Class A common stock)

10 CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES

Not applicable.

11 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW 9

Class A common stock – 7.4% (1) (3); Class C common stock – 37.3% (1)

12 TYPE OF REPORTING PERSON

IN

- (1) Includes a total of 269,835 shares of Class A common stock and 38,419 shares of Class C common stock owned indirectly by Mr. Quist in the Employee Stock Ownership Plan (ESOP), Associated Investors, the Non-Qualified Deferred Compensation Plan, and the 401(k) Retirement Savings Plan, as to which Mr. Quist has sole voting and dispositive powers.
- (2) Each share of Class C common stock has ten votes. Thus, 562,653 shares of Class C common stock have 5,626,530 votes.
- (3) Assumes that 562,653 shares of Class C common stock that Mr. Quist beneficially owns are converted into 562,653 shares of Class A common stock, which would result in Mr. Quist becoming the beneficial owner of 924,003 shares of Class A common stock, or 7.4% of the outstanding shares of Class A common stock.

Item

1.
  - (a) Name of Issuer  
Security National Financial Corporation
  - (b) Address of Issuer's Principal Executive Offices  
5300 South 360 West, Suite 250  
Salt Lake City, Utah 84123

Item

2.
  - (a) Name of Persons Filing  
Scott M. Quist
  - (b) Address of Principal Business Office or, if none, Residence  
5300 South 360 West, Suite 250  
Salt Lake City, Utah 84123
  - (c) Citizenship  
Mr. Quist is a U.S.A. citizen.
  - (d) Title of Class of Securities  
Class A Common Stock
  - (e) CUSIP Number  
814785309



Item 3. If this statement is filed pursuant to §§ 240.13d-1(b) or 240.13d-2(b) or (c), check whether the person filing is:

- (a)  Broker or Dealer registered under Section 15 of the Act
- (b)  Bank as defined in Section 3(a)(6) of the Act
- (c)  Insurance Company as defined in Section 3(a)(19) of the Act
- (d)  Investment Company registered under Section 8 of the Investment Company Act of 1940.
- (e)  An investment adviser in accordance with Section 240.13d-1(b)(1)(ii)(E)
- (f)  An employee benefit plan, or endowment fund in accordance with Section 240.13d-1(b)(1)(ii)(F)
- (g)  A parent holding company or control person in accordance with Section 240.13d-1(b)(1)(ii)(G)
- (h)  A savings association as defined in Section 3(b) of the Federal Deposit Insurance Act (12 U.S.C. 1813)
- (i)  A church plan that is excluded from the definition of an investment company under Section 3(6)(14) of the Investment Company Act of 1940 (15 U.S.C. 80a-3)
- (j)  Group, in accordance with Section 240.13d-1(b)(1)(ii)(J)

Item 4. Ownership

Provide the following information regarding the aggregate number and percentage of the class of securities of the issuer identified in Item 1.

- (a) Amount Beneficially Owned as of February 18, 2015
  - Scott M. Quist: 361,350 shares of Class A common stock (1)  
562,653 shares of Class C common stock (1)  
Class C common stock is convertible into Class A common stock at the ratio of one share of Class C common stock to one share of Class A common stock)
- (b) Percent of Class
  - Class A common stock – 7.4% (1) (2)
  - Class C common stock – 37.3% (1)
- (c) Number of shares as to which such person has:
  - (i) sole power to vote or to direct the vote:

Class A common stock – 361,350 shares (1)

Class C common stock – 562,653 shares (1) (3)

(Class C common stock is convertible into Class A common stock at the ratio of one share of Class C common stock to one share of Class A common stock) shared power to vote or to direct the vote:

(ii)

Class A common stock – 2,739,799 shares (567,314 shares as trustee of issuer's Employee Stock Ownership Plan (ESOP); 66,334 shares as managing partner of Associated Investors; 723,942 shares as trustee of issuer's Non-Qualified Deferred Compensation Plan; and 1,382,209 shares as trustee of issuer's 401(k) Retirement Savings Plan)

Class C common stock – 349,766 shares (242,974 shares as trustee of issuer's Employee Stock Ownership Plan (ESOP); and 106,792 shares as general manager of Associated Investors) (1)

(iii)

sole power to dispose or to direct the disposition of:

Class A common stock – 361,350 shares (1)

Class C common stock – 562,653 shares (1) (3)

(iv)

shared power to dispose or to direct the disposition of:

Class A common stock – 2,739,799 shares (567,314 shares as trustee of issuer's Employee Stock Ownership Plan (ESOP); 66,334 shares as managing partner of Associated Investors; 723,942 shares as trustee of issuer's Non-Qualified Deferred Compensation Plan; and 1,382,209 shares as trustee of issuer's 401(k) Retirement Savings Plan)

Class C common stock – 349,766 shares (242,974 shares as trustee of issuer's Employee Stock Ownership Plan (ESOP); and 106,792 shares as general manager of Associated Investors)

(1) Includes a total of 269,835 shares of Class A common stock and 38,419 shares of Class C common stock owned indirectly by Mr. Quist in the Employee Stock Ownership Plan (ESOP), Associated Investors, the Non-Qualified Deferred Compensation Plan, and the 401(k) Retirement Savings Plan, as to which Mr. Quist has sole voting and dispositive powers.

(2) Assumes that 562,653 shares of Class C common stock that Mr. Quist beneficially owns are converted into 562,653 shares of Class A common stock, which would result in Mr. Quist becoming the beneficial owner of 924,003 shares of Class A common stock, or 7.4% of the outstanding shares



of Class A common stock.

- (3) Each share of Class C common stock has ten votes. Thus, 562,653 shares of Class C common stock has 5,626,530 votes

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Item 5. Ownership of Five Percent or Less of a Class

If this statement is being filed to report the fact that as of the date hereof the reporting person has ceased to be the beneficial owner of more than five percent of the class of securities, check the following [  ].

Item 6. Ownership of More than Five Percent on Behalf of Another Person

Not applicable.

Item 7. Identification and Classification of the Subsidiary which Acquired the Security Being Reported on by the Parent Holding Company

Not applicable.

Item 8. Identification and Classification of Members of the Group

Not applicable.

Item 9. Notice of Dissolution of Group

Not applicable.

Item 10. Certification

By signing below I certify that, to the best of my knowledge and belief, the securities referred to above were acquired in the ordinary course of business and were not acquired for the purpose of and do not have the effect of changing or influencing the control of the issuer of such securities and were not acquired in connection with or as a participant in any transaction having such purposes or effect.

SIGNATURE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

Date: May 27, 2015

/s/ Scott M.  
Quist  
Signature

Scott M. Quist  
Name/Title

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OLSPAN="1" NOWRAP VALIGN="bottom">) (1,841,256) 3,660,724

Deemed dividend on convertible redeemable preferred shares

1,583,333 996,263 4,588,152

Net loss attributable to holders of common shares

(416,409) (5,652,341) (2,837,519) (927,428)

Net loss per common share:

Basic

(0.02) (0.26) (0.13) (0.04)

Diluted

(0.02) (0.26) (0.13) (0.04)

Shares used in computation of net loss per share:

Basic

22,000,000 22,000,000 22,000,000 22,000,000

Diluted

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22,000,000 22,000,000 22,000,000 22,000,000

Pro forma income (loss) per share on an as converted basis<sup>(1)</sup>:

Basic

(0.13) 0.08

Diluted

(0.13) 0.08

Shares used in computation of pro forma per share amount on an as converted basis<sup>(1)</sup>:

Basic

32,306,849 44,706,361

Diluted

32,306,849 45,154,212

Share-based compensation expenses during the related periods included in:

Cost of revenues

37,576 22,784

Selling and marketing expenses

5,374 67,171

General and administrative expenses

35,802 32,436

(1) Pro forma net income (loss) per common share is computed by dividing net income (loss) by the weighted average number of common shares outstanding for the period plus the weighted average number of common shares outstanding resulting from the assumed conversion upon the closing of this offering of the outstanding convertible redeemable preferred shares.

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	As of December 31, 2006 Actual	As of September 30, 2007 Actual (US\$)	As adjusted <sup>(1)</sup>
<b>Condensed Consolidated Balance Sheet Data:</b>			
Cash and cash equivalents	5,215,693	29,513,127	126,457,127
Total assets	17,043,776	64,699,986	161,643,986
Total current liabilities	1,241,783	5,532,740	5,532,740
Total shareholders' equity	581,666	1,094,328	156,111,246

- (1) Our consolidated balance sheet data as of September 30, 2007 is adjusted to give effect to (i) the automatic conversion of all of our outstanding preferred shares into 32,139,088 common shares immediately prior to the closing of this offering and (ii) the issuance and sale of 13,500,000 common shares in the form of ADSs by us in this offering at an initial public offering price of US\$8.00 per ADS, after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us.

	December 31, 2005	As of December 31, 2006	September 30, 2007
<b>Selected Operating Data:</b>			
Number of digital television displays in our mobile digital television advertising network:			
Exclusive agency cities		9,291	22,873
Direct investment cities	667	7,518	10,711
Total	667	16,809	33,584

Number of digital displays in our stationary advertising platform 208

	For the Year Ended December 31, 2006	For the Nine Months Ended September 30,	
		2006	2007
Total hours of broadcasting <sup>(1)</sup>	30,640	20,126	54,017
Average revenues per hour <sup>(1)(2)</sup> (US\$)	56	34	282

- (1) Includes all of the cities in our network and stationary advertising platform.  
(2) We calculate average revenues per hour by dividing our advertising service revenues derived from our network and stationary advertising platform by the total hours of broadcasting in the cities of our network and stationary advertising platform.

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**RISK FACTORS**

*You should consider carefully all of the information in this prospectus, including the risks and uncertainties described below and our consolidated financial statements and related notes, before making an investment in our ADSs. 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, and you may lose all or part of your investment.*

**Risks Relating to Our Business**

**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. We entered into our first direct investment arrangement in Chengdu in May 2005, and we secured our principle exclusive mobile digital television advertising agency arrangements in Beijing and Shenzhen in October and December 2006, respectively. 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 is also 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 short 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 a history of losses; we may not become profitable and may not sustain or increase profitability in the future.**

For the period from April 8, 2005 (date of inception) to December 31, 2005 and the year ended December 31, 2006, we had a net loss of US\$0.4 million and US\$4.1 million, respectively. Although we generated net income for the first time during the second quarter of 2007 and our net income amounted to US\$3.7 million in the nine months ended September 30, 2007, we may not achieve or sustain profitability on a quarterly or annual basis in the future. Our ability to be profitable will be contingent, in part, on the amount of our operating expenses, which we expect will increase as we expand our business. If we fail to increase our revenues at our anticipated rates or our operating expenses increase without a commensurate increase in our revenues, our business, financial condition and results of operations will be negatively affected.

**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 operations would be harmed and our financial condition and results of operations would be materially and adversely affected.**

On March 27, 2006, the PRC State Administration of Radio, Film and Television, or SARFT, promulgated the Notice Concerning Experimental Mobile Digital Television, or the March 2006 Notice. The March 2006 Notice regulates experimental mobile digital television operations and primarily contains the following provisions:

no experimental mobile digital television operations shall be conducted without approval of SARFT;

no formal operation of mobile digital television shall be conducted before the establishment and adoption of national standards for mobile digital television;

after the adoption of the national digital mobile television standards, all mobile digital television operations must comply with such national standards; and

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existing mobile television network operations must apply for SARFT approval before April 30, 2006, and must stop operating as of June 15, 2006 if they fail to submit their applications by April 30, 2006 or their applications are disapproved by SARFT.

These regulations apply directly to our local mobile television operating partners because they operate mobile television networks, and SARFT and its local branches have the authority to order any mobile television operators who have violated the March 2006 Notice or other applicable laws to stop operating their mobile television networks.

Grandall Legal Group, our PRC legal counsel, has advised us that, since the mobile digital television industry is relatively new in China, there are significant uncertainties regarding the implementation and interpretation of the laws, rules and regulations applicable to mobile digital television operations, including the March 2006 Notice. Furthermore, the mobile digital television industry is encouraged under the Eleventh Five-Year Plan (2006-2010) of the PRC government. To date, our local mobile television operating partners in Shenzhen, Beijing, Zhengzhou, Guangzhou and Ningbo have obtained SARFT approvals for operating mobile digital television networks in these cities. However, our local operating partners in cities other than those five cities are currently in violation of the March 2006 Notice by operating mobile digital television networks without the required approval from SARFT. Because our local mobile television operating partners in such cities (except in Changzhou and Dalian) submitted applications to SARFT before April 30, 2006 as required under the March 2006 Notice and none of the applications has been rejected by SARFT as of the date hereof, Grandall Legal Group has advised us that it believes that there is no substantial or material risk that the operations of local mobile digital television networks in these cities will be ordered to stop. We cannot assure you, however, that SARFT or its local branches will not order any of our local operating partners to stop their operations. If any of our local operating partners are 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 that case, our business, financial condition and results of operations would be materially and adversely affected.

**The mobile digital television networks of our direct investment entities and the digital television broadcasting infrastructure of our local operating partners currently do not comply with the newly adopted PRC national standards for mobile digital television operations. If and when our local mobile television operating partners and our direct investment entities are required to comply with the national standards, we may spend significant capital and other resources.**

Our local operating partners have adopted two different digital television technology standards in operating their networks. In addition, our direct investment entities have installed digital television receivers that were made in conformity with the technology standards 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. Under the March 2006 Notice, all of our local operating partners must adopt the National Standard for their mobile digital television operations. As of the date of this prospectus, the mobile digital television network of our direct investment entities and the digital television broadcasting infrastructure of our local operating partners are not in compliance with the National Standard. Our direct investment entities and our local operating partners will be required to spend significant capital and other resources on new equipment to bring their operations in compliance with the National Standard. Under our exclusive advertising agency agreements, we are responsible for the portion of such expenditures relating to the displays. Neither the March 2006 Notice nor the National Standard provides a specific timeline for full compliance with the National Standard. In addition, the components necessary for mobile digital television operators to comply with the National Standard currently are not readily available in China. Therefore, we are unable to accurately estimate the amount of capital expenditures required for us to comply with the National Standard. Furthermore, during the period when new technology and equipment are installed, no programming or advertising can be broadcast, which will disrupt our advertising business. If the PRC regulatory authorities set a

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tight time table for the compliance with the National Standard or if the purchase of equipment required for such compliance involves substantial expenditure, 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 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 orders to publish an advertisement correcting the misleading information. In circumstances involving serious violations, the PRC government may revoke a violator's license for its advertising business operations.

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 stationary 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 separately and independently review and verify these advertisements 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 the advertiser's 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 the 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 the advertisers. Our reputation will be tarnished and our results of operations may be adversely affected if advertisements shown on our mobile digital television advertising network or stationary advertising platform are 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 are not complete, or if the advertisements that our local operating partners have broadcast on our network have not received required approvals from the relevant local supervisory bodies, or if the advertisements are not content compliant.

All forms of outdoor advertisements must be registered before dissemination with the local branches of the State Administration of Industry and Commerce, or SAIC, which regulates advertising companies, and 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. The applicable PRC laws and regulations are not clear as to whether advertising on public transportation systems or other out-of-home locations would be considered outdoor advertising. In practice, local SAIC branches have discretion in determining 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 may also be subject to further revisions or amendments. Our PRC legal counsel, Grandall Legal Group, has advised us that local SAIC branches in nine of the cities where we operate our advertising business, namely Changchun, Dalian, Guangzhou, Harbin, Nanjing, Shenzhen, Suzhou, Wuxi and Zhengzhou, require that advertising on public transportation systems or other out-of-home locations be registered as outdoor advertising. We would need our local operating partners cooperation to effect the required registrations. Our direct investment entities in Changchun, Harbin and Zhengzhou have completed the required registrations. Our direct investment entities in Dalian and Suzhou and our local operating



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partner in Shenzhen are in the process of completing the required registration. However, our local operating partners in Guangzhou, Nanjing and Wuxi have advised us that they do not believe such registrations are necessary. If advertising on public transportation systems or other out-of-home locations is determined by a local SAIC branch to be outdoor advertising and a registration is not effected as required by the local SAIC branch, our local operating partner or direct investment entity in the jurisdiction city of the local SAIC branch would be subject to a fine and may be ordered to stop disseminating the advertisements and as a result, our business in that city would be materially and adversely affected, which may have a material and adverse effect in 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 they may terminate their relationships with us.

In addition, 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 displayed on 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 event may also damage our reputation. If our advertising viewers 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.

**If SARFT determines that the regulations on radio and television advertising operation are applicable to advertising on mobile digital television or establishes similar regulations for mobile digital television, our business and prospects could be harmed.**

SARFT promulgated Interim Measures of Administration of Advertisement Broadcasting of Radio and Television in 2003 that became effective on January 1, 2004. This regulation is applicable to advertisement broadcasting on all radio and television stations and channels. This regulation contains a number of restrictions, including that the total advertising time of a radio or television station or channel shall not be greater than 20% of its total broadcasting time each day. On average, approximately 11% of the total broadcasting time each day on our network was sold for advertising for the nine months ended September 30, 2007. Grandall Legal Group, our PRC counsel, has advised us that the provisions of this regulation restricting advertising time are only applicable to traditional radio and television broadcasting and that as of the date hereof, SARFT has not indicated that this regulation shall apply to mobile digital television. As a result, we believe that this regulation is not applicable to the mobile digital television industry. However, SARFT may determine that this regulation is applicable to the mobile digital television industry or promulgate new rules that are similar to this regulation to regulate or restrict the advertising time of mobile digital television networks. If any of these events occur, the total advertising time on our network will be limited and, as a result, our business and prospects could 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 air advertisements on large mobile digital television networks on mass transportation systems in economically prosperous cities. This, in turn, requires 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. We currently provide advertising services through approximately 33,000 digital displays in 14 economically prosperous cities in China. We have entered into seven exclusive advertising agency arrangements and 11 direct

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investment arrangements. 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 with them before the expiration of these agreements if there are events of force majeure or if we have breached the agreements. For example, our agreement with our local operating partner in Beijing requires us to install digital television displays in new buses pursuant to the terms of the agreement between our local operating partner in Beijing and the local bus company in Beijing. 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 the local television stations could harm our business.**

We operate in 11 cities through direct investment entities formed with the 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 those direct investment entities, except the direct investment entity in Shenzhen in which we own a 25% equity interest and the direct investment entity in Wuxi in which we own a 14% equity interest. Most of our direct investment agreements provide that we have the right to nominate the general manager of the direct investment entity, who will be in charge of the day-to-day operations of the direct investment entity. Our local operating partners, the local television stations, control the broadcasting and are responsible for compliance matters. We cannot assure you that disputes will not arise between us and our local operating partners, and that any such disputes will be resolved in our favor. Further, our interests and the interests of our local operating partners may be different. In some cases, we may have to rely on court proceedings to resolve the disputes between us and our local operating partners. Any litigation will divert our resources and may result in a judgment against us. If any dispute between us and our local operating partners arises, our business operations could be harmed, and our financial condition and results of operations could be materially and adversely affected.

**Our failure or our local operating partners' failure to maintain existing relationships or 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 other selected operations are secured and provided by our local operating partners or our direct investment entities. Our operations on the stationary advertising platform in Shenzhen and Guangzhou were secured by our agreements with the subway companies in the two cities, respectively. The foregoing arrangements generally have terms ranging from two to ten years. 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.

**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

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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 the mass transportation systems can be time-consuming and requires us to commit a substantial amount of resources, from which we may be unable to recognize the anticipated benefits.**

Our success depends largely on our ability to establish relationships with local television stations, local governments, and mass transportation companies. The process of establishing these relationships can be lengthy because mobile digital television is a relatively new form of media, and we often need to convince counterparties about the benefits of establishing a mobile digital television network on mass transportation systems. We may be required to commit substantial resources during this process, and counterparties may decide not to proceed with deployment. If these counterparties do not accept 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 agrees 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 the installation of digital television displays, or expenses relating to the acquisition of interests in the local direct investment entities. We may experience increased distribution and operations costs during and/or after deployment. We may also experience delays in revenues generation, 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 be unable to generate sufficient revenues from advertising packages on these buses and other mass transportation vehicles to offset the related costs.

**Defects in the local mobile digital television networks, which we rely on to conduct our advertising operations, could result in a loss of advertisers and audience and unexpected expenses.**

Our advertising operations rely on the combination of the broadcasting network infrastructure of the local television stations and digital television displays. 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 implementation, certain errors or defects may not be detectable. The existence of errors or defects in this combined infrastructure may result in 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 revenue loss, 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 be unable 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 network is generally provided in the agreements with our local operating partners. For the nine months ended September 30, 2007, we

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sold approximately 31% of the total advertising time available in our exclusive agency cities, Beijing, Shenzhen and Nanjing to our advertising clients. In cities where demand for time by advertisers is high, such as Beijing, Shenzhen and Nanjing, our local mobile digital television networks may reach saturation, meaning we cannot sell additional advertising time without further 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 be unwilling to accept rate increases or a decrease in the amount of programming, which in turn may decrease the attentiveness of the audience to their advertisements. If we are unable to increase the length of 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 non-broadcast advertising platform depend on the size and quality of our networks and the demand by advertisers for advertising time. Advertisers choose to advertise on our advertising network in part based on the size of the network and the desirability of the cities where we operate. If we fail to maintain or increase the number of cities, diversify advertising channels in our network, or solidify our brand name and reputation as a quality provider of advertising services, advertisers may be unwilling to purchase time on our network or to pay the advertising fees we require 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 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 network size and coverage, location, price, 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, and other smaller mobile digital television companies. 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 cards or DVDs. For example, Towona Mobile Digital Co., Ltd. and Bus Online each operate a network on mass transportation systems utilizing compact flash cards, DVDs and, to a lesser extent, mobile digital television broadcasts in China including Beijing, Guangzhou, Nanjing, Shenzhen and several other cities where we operate our business. Towona was reported to be the largest mobile television group in China in a report released in November 2007 which was reported to be jointly sponsored by four market research firms.

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 to 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.

In the future, we may also face competition from new entrants into the mobile digital television advertising sector. As is customary in the advertising industry, we 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

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cities in which we operate. Therefore, we cannot assure you that we will succeed in gaining a greater market share or maintain our market share. In addition, since December 10, 2005, wholly foreign-owned advertising companies have been allowed to operate in China, which may expose us to increased competition from international advertising media companies attracted to opportunities in China.

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 successfully compete against new or existing competitors.

### **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 stationary advertising platform, and the resulting advertising spending by our clients, are particularly sensitive to changes in general economic conditions and advertising expenditures typically decrease during periods of economic downturn. Advertisers may reduce the money they spend to advertise on our network and stationary 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 decline in advertising spending in general.

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 our financial condition and results of operations.

### **Four major cities in China have accounted, and will continue to account, for a substantial majority of our revenues. Our business and financial conditions are particularly subject to general economic conditions and the relationships with our local operating partners in these four cities.**

A substantial majority of our revenues are currently generated from our operations in four major cities in China: Beijing, Guangzhou, Nanjing and Shenzhen. These four cities in the aggregate accounted for 41% and 87% of our total revenues in 2006 and the nine months ended September 30, 2007, respectively. We expect to continue to generate a substantial portion of our revenues from these four 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 change in advertising preferences, our advertising network and our ability to generate adequate cash flow would be materially and adversely affected. In addition, if we fail to maintain our relationships with the local operating partners in any of these cities, our business, financial condition and results of operations would be materially and adversely affected.

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### **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 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, attract new advertising clients and 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 the pricing strategies of our competitors;

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 in relation to the advertising industry; and

economic and geopolitical conditions in China and elsewhere.

Many of the factors discussed above are beyond our control, making our quarterly results difficult to predict, which could cause the trading price of our ADSs to decline below investor expectations. 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 be unable 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.

### **Failure to manage our growth could strain our management, operational and other resources, which could materially and adversely affect our business and prospects.**

We have been expanding our operations and plan to continue to expand rapidly in China. To meet the demand of advertisers for a broader network coverage, we must continue to expand our network by installing more digital television displays on buses and other mass transportation vehicles in the cities in which we currently operate and by entering into other target cities. We also plan to expand our network within and beyond mass transportation systems. For example, we plan to expand our network to include additional media platforms, such as personal mobile devices and in-building displays. The continued growth of our business has resulted in, and will continue to result in, substantial demand on our management, operational and other resources. In particular, the management of our growth will require, among other things:

increased sales and sales support activities;

our ability to develop and improve our existing administrative and operational systems;

information technology system enhancement;

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stringent cost controls and sufficient working capital;

strengthening of financial and management controls;

our ability to secure a reliable supply of digital television displays for our network, which are manufactured by third-party suppliers according to our specifications; and

hiring and training of new personnel.

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As we continue this effort, we may incur substantial costs and expend substantial resources. We may not be able to manage our current or future operations effectively and efficiently or compete effectively in new markets we enter. If we are not able to manage our growth successfully, our business and prospects would be materially and adversely affected.

**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 is dependent on the continued services of key members of our management team. In particular, our future success is dependent upon the continued service of Limin Li, our founder, chairman and chief executive officer and our largest shareholder. We rely on his experience in 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 face competition for personnel from other mobile digital television advertising companies or general advertising companies and other organizations. Such competition for these individuals could cause us to offer higher compensation and other benefits in order to attract and retain them, which could materially and adversely affect our financial condition and results of operations. We may be unable to attract or retain the personnel required to achieve our business objectives and failure to do so could severely disrupt our business and prospects. The process of hiring qualified personnel is also often lengthy. If our recruitment and retention efforts are unsuccessful in the future, it may be more difficult for us to execute our business strategy.

We do not maintain key-person insurance for members of our management team. If we lose the services of any 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. Furthermore, as we expect to continue expanding our operations and developing new products, we will need to continue attracting and retaining experienced management. In addition, if any of our executive officers joins a competitor or forms a competing company, we may lose some of our customers. Each of our executive officers has entered into an employment agreement with us that contains confidentiality and non-competition provisions. However, if any disputes arise between our executive officers and us, we cannot assure you, in light of uncertainties associated with the PRC legal system, that any of these provisions could be enforced in China, where the majority of our executive officers reside and hold some of their assets.

**We may not be able to recruit and retain necessary personnel, particularly sales and marketing personnel, 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 management, as well as sales, marketing, engineering and other key personnel. Because of intense competition for these employees, we may be unable to attract and retain key technical and managerial personnel. If we are unable to retain our existing personnel, or attract, train, integrate or motivate additional qualified personnel, our growth may be restricted. The loss of any of these key employees could slow our programming, distribution and sales efforts or harm the perception of advertisers, venue providers and investors. We may also incur increased operating expenses by forcing senior executives 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 September 30, 2007, we had 103 dedicated sales and marketing personnel and ten consultants to support our sales and marketing efforts. We depend on our sales staff to market service offerings 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 would not be successful and our business, financial condition and results of operations would be materially and adversely affected.



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### **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 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 the intellectual property rights of others, 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 these third party infringement claims, regardless of their merit. 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 requires us to continuously identify new advertising trends and the technology needs of advertisers and public viewers, which may require us to develop new features and enhancements for our network. The majority of our displays use LCD screens. We currently air 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 to these 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 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 at acceptable terms, or at all, which could adversely affect our liquidity and financial position.**

We may need additional cash resources due to changed business conditions or other future developments. If these sources are insufficient to satisfy our cash requirements, we may seek to sell additional equity or debt securities or obtain a credit facility. The sale of convertible debt securities or equity securities, including from this offering, could result in dilution to our shareholders. The incurrence of indebtedness would result in increased debt service obligations and could result in operating and financing covenants that would restrict our operations and liquidity.

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.

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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 operations;

hire, train and retain employees;

market our programs, services and products; or

respond to competitive pressures or unanticipated capital requirements.

**We may acquire other companies as part of our growth strategy, and these acquisitions may expose us to significant business risks.**

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 effectively consummate and integrate any future acquisitions on terms that are favorable to us may be limited by the number of attractive acquisition targets, internal demand 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, the third parties with whom we seek to cooperate may not select us as a potential partner or we may not be able to enter into arrangements on commercially reasonable terms, or at all. The negotiation and completion of potential acquisitions, whether or not ultimately consummated, could also require significant diversion of management time and resources and potential disruption of our existing business. Furthermore, we cannot assure you that the expected synergies from future acquisitions will actually materialize. In addition, future acquisitions could result in the incurrence of additional indebtedness, costs, and contingent liabilities. Future acquisitions may also expose us to potential risks, including risks associated with:

the integration of new operations, services and personnel;

unforeseen or hidden liabilities;

the diversion of financial or other resources from our existing businesses and technologies;

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

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

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

We believe our brand, trade name and other intellectual property are critical to our success. The success of our business depends in part upon our continued ability to use our brand, trade names and trademarks to increase brand awareness and to 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. In addition, our information and operational systems, which have not been patented or otherwise registered as our property, are a key component of our competitive advantage and our growth strategy.

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Monitoring and preventing the unauthorized use of our intellectual property is difficult. The measures we take to protect our brand, trade names, trademarks and other intellectual property rights may not be adequate to prevent their unauthorized use by third parties. Furthermore, application of laws governing intellectual property rights in China and abroad is uncertain and evolving, and could involve substantial risks to us. If we are unable to adequately protect our brand, trade names, trademarks and other intellectual property rights, we may lose these rights and our business may suffer.

### **We rely on computer software and hardware systems in managing our operations, the failure of which could adversely affect our business, financial condition and results of operations.**

We are dependent upon our computer software and hardware systems in supporting our network and managing and monitoring programs on the network. In addition, we rely on our computer hardware for the storage, delivery and transmission of the data on our network. Any system failure which interrupts the input, retrieval and transmission of data or increases the service time could disrupt our normal operation. 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 adverse effect on our business, financial condition and results of operations.

### **We have limited insurance coverage in China.**

The insurance industry in China is still at an early stage of development. Insurance companies in China offer limited insurance products. We have determined that the risks of disruption or liability from our business, the loss or damage to our property, including our facilities, 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 have 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 property, 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 upon the past and projected composition of our income and valuation of our assets, including goodwill, we believe we will not be a passive foreign investment company for 2007, and we do not expect to become one in the future, although there can be no assurance in this regard. If, however, we become a passive foreign investment company, such characterization could result in adverse U.S. tax consequences to you if you are a U.S. investor. For example, if we become a PFIC, our U.S. investors will become subject to increased tax liabilities under U.S. tax laws and regulations and will become subject to burdensome reporting requirements. Our PFIC status is determined on an annual basis and depends on the composition of our income and assets. 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) the average percentage of our assets by value in a taxable year which produce or are held for the production of passive income (which includes cash) is at least 50%. 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. In addition, the composition of our income and assets will be affected by how, and how quickly, we spend the cash we raise in this offering. We cannot assure you that we will not be a PFIC for 2007 or any future taxable year.

### **We may be unable to establish and maintain an effective system of internal control over financial reporting, and as a result we may be unable to accurately report our financial results or prevent fraud.**

Upon completion of this offering, we will become a public company in the United States that is, or will be, subject to the Sarbanes-Oxley Act. Section 404 of the Sarbanes-Oxley Act, or Section 404, will require that

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we include a report from management on our internal control over financial reporting in our annual report on Form 20-F beginning with our annual report for the fiscal year ending December 31, 2008. In addition, our independent registered public accounting firm must report on the effectiveness of our internal control over financial reporting. Our management or our independent registered public accounting firm may conclude that our internal controls are not effective. Either of these possible outcomes could result in an adverse reaction in the financial marketplace due to a loss of investor confidence in the reliability of our reporting processes, which could materially and adversely affect the trading price of our ADSs.

In addition, our reporting obligations as a public company will place a significant strain on our management, operational and financial resources and systems for the foreseeable future. Prior to this offering, we have been a private company with limited accounting personnel and other resources with which to address our internal control over financial reporting. In connection with the audit of our consolidated financial statements as of and for the year ended December 31, 2006, our independent registered public accounting firm has identified several control deficiencies of our company as of December 31, 2006, including, among other things, the need to add dedicated financial reporting and accounting resources necessary to comply with U.S. GAAP and SEC reporting requirements and to implement our existing credit control procedures more effectively under the supervision of our senior management. We may identify additional control deficiencies as a result of the assessment process we will undertake in compliance with Section 404, including but not limited to internal audit resources and formalized and documented closing and reporting processes. We plan to remediate any identified control deficiencies in time to meet the deadline imposed by the requirements of Section 404, but we may be unable to do so. Our failure to establish and maintain an effective system of internal control over financial reporting could result in the loss of investor confidence in the reliability of our financial reporting processes, which in turn could harm our business and negatively impact the trading price of our ADSs.

### **Risks Relating 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 directly provide advertising services. In addition, the March 2006 Notice prohibits foreign investment in any mobile digital television operating company in China. We are a Cayman Islands corporation and a foreign legal person under Chinese laws. Accordingly, our subsidiary, China Digital Technology Consulting (Shenzhen) Co., Ltd., or CDTC, is currently ineligible to apply for the required licenses to provide advertising services in China. Our advertising business is currently provided through our contractual arrangements with our consolidated affiliated entity in China, CDMTV. CDMTV is currently owned by Limin Li and Yanqing Liang and holds the requisite licenses to provide advertising services in China. CDMTV and its 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 CDMTV and its subsidiaries to operate our advertising business. We do not have any equity interest in CDMTV but receive the economic benefits of it through various contractual arrangements.

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. Although we have been advised by our PRC counsel, Grandall Legal Group, that the structure for operating our business in China (including our corporate structure and contractual arrangements with CDMTV and its shareholders) complies, and after the completion of this offering will continue to comply, 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

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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 televisions industry, we may be subject to severe penalties including, among other things, being prohibited from continuing our operations in the PRC.

If we, CDMTV or any of its 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 required permits or approvals, the relevant PRC regulatory authorities, including the SAIC and SARFT, would have broad discretion in dealing with such violations, including:

revoking the business and operating licenses of CDMTV or our PRC subsidiary and affiliated entities;

discontinuing or restricting the conduct of any related-party transactions between our PRC subsidiary and affiliated entities;

imposing fines, confiscating the income of CDMTV or our income, or imposing other requirements with which we or our PRC subsidiary and affiliated entities may not be able to comply;

shutting down the network of CDMTV;

requiring us or our PRC subsidiary and affiliated entities to restructure our ownership structure or operations; or

restricting or prohibiting our use of the proceeds from this offering to finance our business and operations in China.

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

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

We have in the past relied, and will continue in the future to rely, on contractual arrangements with CDMTV, our consolidated affiliated entity in China, and its shareholders to operate our advertising business. For a description of these contractual arrangements, see the section titled Our Corporate Structure. These contractual arrangements may not be as effective as ownership of controlling equity interest would be in providing us with control over, or enabling us to derive economic benefits from operations of, CDMTV and its subsidiaries. If we had direct ownership of CDMTV and its subsidiaries, we would be able to exercise our rights as a shareholder to (i) effect changes in the board of directors of those companies, which in turn could effect changes, subject to any applicable fiduciary obligations, at the management level, and (ii) derive economic benefits from operations of CDMTV and its subsidiaries by causing CDMTV and its subsidiaries to declare and pay dividends. However, under the current contractual arrangements, as a legal matter, if CDMTV or any of its subsidiaries and shareholders fails to perform its, his or her respective obligations under these contractual arrangements, we may have to incur substantial costs and resources to enforce such arrangements, and rely on legal remedies under PRC law, including seeking specific performance or injunctive relief, and claiming damages, which we cannot assure you will be effective. For example, if shareholders of CDMTV were to refuse to transfer their equity interests in CDMTV to us or our designated persons 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.

We expect to continue to depend upon our contractual arrangements with CDMTV and its shareholders to operate our advertising business in China due to the PRC regulatory restrictions on foreign investments in our





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

In addition, if CDMTV or all or part of its assets become subject to liens or rights of third-party creditors, we may be unable to continue some or all of our business activities, which could severely disrupt our business and cause grave damaging effects on our financial condition and results of operations. If CDMTV undergoes a voluntary or involuntary liquidation proceeding, its shareholders or unrelated third-party creditors may claim rights to some or all of these assets, thereby hindering our ability to operate our business or derive economic benefits from CDMTV and its subsidiaries, which could materially and adversely affect our business, our ability to generate revenues and the market price of your ADSs.

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

### **The beneficial owners of CDMTV may have potential conflicts of interest with us.**

The beneficial owners of CDMTV are also the founders of our company and own a substantial portion of our common shares. Conflicts of interests between their dual roles as beneficial owners of both CDMTV and our company may arise. We cannot assure you that when conflicts of interest arise, any or all of these individuals will act in the best interests of our company or that any conflict of interest will be resolved in our favor. In addition, these individuals may breach or cause CDMTV to breach or refuse to renew the existing contractual arrangements that allow us to effectively control CDMTV and receive economic benefits from it. If we cannot resolve any conflicts of interest or disputes between us and the beneficial owners of CDMTV, we would have to rely on legal proceedings, the outcome of which is uncertain and which could be disruptive to our business.

### **Our contractual arrangements with CDMTV 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 determine whether any of these transactions will be regarded by the PRC tax authorities as arm's length transactions because, based on our knowledge, the PRC tax authorities have not issued a ruling or interpretation in respect of the type of transaction structure similar to ours. The relevant tax authorities may determine that our contractual relationships with CDMTV were not entered into on an arm's length basis. If any of the transactions between CDTC, our wholly owned subsidiary in China, and CDMTV, our affiliated entity, and its shareholders, including our contractual relationships with CDMTV, are determined not to have been entered into on an arm's length basis, or are found to result in an impermissible reduction in taxes under PRC law, the PRC tax authorities may adjust the profits and losses of CDMTV and assess more taxes on it. In addition, the PRC tax authorities may impose late payment surcharges and other penalties to CDMTV for underpaid taxes. Our net income may be materially and adversely affected if CDMTV's tax liabilities increase or if it is found to be subject to late payment surcharges or other penalties.

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

We are a holding company, and we rely principally on dividends and other distributions on equity paid by CDTC, our PRC operating subsidiary, for our cash requirements, including the funds necessary to service any debt we may incur. If CDTC incurs debt on its own behalf in the future, the instruments governing the debt may restrict their ability to pay dividends or make other distributions to us. In addition, the PRC tax authorities may require us to adjust our taxable income under the contractual arrangements CDTC currently has in place with CDMTV in a manner that would materially and adversely affect CDTC's ability to pay dividends and other distributions to us. Furthermore, relevant PRC laws, rules and regulations permit payments of dividends by CDTC only out of its retained earnings, if any, determined in accordance with PRC accounting standards and regulations. Under PRC laws, rules and regulations, CDTC is also required to set aside a portion of its net income each year to fund specific reserve funds. These reserves are not distributable as cash dividends. In addition, the statutory general reserve fund requires annual appropriations of 10% of after-tax income to be set aside prior to payment of dividends until the cumulative fund reaches 50% of the registered capital. As a result of these PRC laws, rules and regulations, CDTC is restricted in its ability to transfer a portion of its net assets to us whether in the form of dividends, loans or advances. As of December 31, 2006, we had an accumulated deficit totaling US\$6.1 million and we did not make any appropriation to the reserve funds. Any limitation on the ability of our operating subsidiary and consolidated affiliates 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.

**Risks Relating to Doing Business in China**

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

the degree of government involvement;

the level of development;

the growth rate;

the control of foreign exchange;

access to financing; and

the allocation of resources.

While the Chinese economy has grown significantly in the past 30 years, the growth has been uneven, both geographically and among various sectors of the economy. The PRC government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures benefit the overall Chinese economy, but may also have a negative effect on 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.



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The Chinese economy has been transitioning from a planned economy to a more market-oriented economy. Although the PRC government has in recent years implemented measures emphasizing the utilization of market forces for economic reform, the reduction of state ownership of productive assets and the establishment of sound corporate governance in business enterprises, a substantial portion of the productive assets in China is still owned by the PRC government. The continued control of these assets and other aspects of the national economy by the PRC government could materially and adversely affect our business. The PRC government also exercises significant control over China's economic growth by allocating resources, controlling payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. Since late 2003, the PRC government have implemented a number of measures, such as raising bank reserves against deposit rates to place additional limitations on the ability of commercial banks to make loans and raise interest rates, in order to decrease the growth rate of specific segments of China's economy which it believed to be overheating. These actions, as well as future actions and policies of the PRC government, could materially affect our liquidity and access to capital and our ability to operate our business. Substantially all of our assets are located in China and substantially all of our revenues are derived from our operations in China. Accordingly, our business, financial condition, results of operations and prospects are subject, to a significant extent, to economic, political and legal developments in China.

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

The PRC legal system is a civil law system based on written statutes. Unlike in common law systems, prior court decisions may be cited for reference but have limited precedential value. Since 1979, PRC legislation and regulations have significantly enhanced the protections afforded to various forms of foreign investments in China. We conduct all of our business through our subsidiary and consolidated affiliates established in China. However, since the PRC legal system continues to rapidly evolve, the interpretations of many laws, regulations and rules are not always uniform and enforcement of these laws, regulations and rules involve uncertainties, which may limit legal protections available to us. For example, we may have to resort to administrative and court proceedings to enforce the legal protection that we enjoy either by law or contract. However, since PRC administrative and court authorities have significant discretion in interpreting and implementing statutory and contractual terms, it may be more difficult 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 of future developments in the PRC legal system, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, or the preemption of local regulations by national laws. These uncertainties could limit the legal protections available to us and other foreign investors, including you. In addition, any litigation in China may be protracted and result in substantial costs and diversion of our resources and management attention.

### **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 prospectus.**

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

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### **PRC regulation of loans and direct investment by offshore holding companies to PRC entities may delay or prevent us from using the proceeds of this offering to make loans or additional capital contributions to our PRC operating subsidiary and affiliates.**

In utilizing the proceeds of this offering, as an offshore holding company of our PRC operating subsidiary and consolidated affiliates, we may make loans to our PRC subsidiary and consolidated affiliated entities, or we may make additional capital contributions to our PRC subsidiary. Any loans to our PRC subsidiary or consolidated PRC affiliated entities are subject to PRC regulations and approvals. For example:

loans by us to foreign invested enterprises cannot exceed statutory limits and must be registered with the PRC State Administration of Foreign Exchange, or SAFE, or its local counterparts; and

loans by us to domestic PRC enterprises must be approved by the relevant government authorities and must also be registered with SAFE or its local counterparts.

We may also decide to finance CDTC by means of capital contributions. These capital contributions must be approved by the PRC Ministry of Commerce or its local counterpart. Because CDMTV and its subsidiaries are domestic PRC enterprises, we are not likely to finance their activities by means of capital contributions due to regulatory issues relating to foreign investment in domestic PRC enterprises, as well as licensing and other regulatory issues. We cannot assure you that we can obtain these government registrations or approvals on a timely basis, if at all, with respect to future loans or capital contributions by us to CDMTV or any of its subsidiaries. If we fail to receive such registrations or approvals, our ability to use the proceeds of this offering and to capitalize our PRC operations would be negatively affected, which would adversely and materially affect our liquidity and our ability to expand our business.

### **Recent PRC regulations relating to offshore investment activities by PRC residents may increase our administrative burden and restrict our overseas and cross-border investment activity. If our shareholders who are PRC residents fail to make any required applications and filings under such regulations, we may be unable to distribute profits and may become subject to liability under PRC laws.**

SAFE issued a public notice in October 2005, or the SAFE notice, requiring PRC residents to register with the local SAFE branch before establishing or controlling any company outside of China for the purpose of capital financing with assets or equities of PRC companies, referred to in the notice as an offshore special purpose company. PRC residents who are shareholders of offshore special purpose companies established before November 1, 2005 were required to register with the local SAFE branch before March 31, 2006. The SAFE notice further requires amendment to the registration in the event of any significant changes with respect to the offshore special purpose company, including an initial public offering by such company. Limin Li and Yanqing Liang, our shareholders who are PRC citizens, have registered with the local SAFE branch as required by the SAFE notice and are required to amend their registration 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 fashion 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 may also 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.

On December 25, 2006, the People's Bank of China promulgated the Measure for the Administration of Individual Foreign Exchange, and on January 5, 2007, the SAFE promulgated the implementation rules on those measures. Pursuant to these regulations, PRC citizens who have been granted shares or share options by an overseas listed company according to its employee share option or share incentive plan are required, through a qualified PRC agent which may be the PRC subsidiary of such overseas listed company, to register with the SAFE and complete certain other procedures related to the share option or share incentive plan. Foreign

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exchange income received from the sale of shares or dividends distributed by the overseas listed company must be remitted into a foreign currency account of such PRC citizen or be exchanged into Renminbi. Our PRC citizen employees who have been granted share options, or PRC optionees, will be subject to these regulations upon the listing of our ADSs on the Nasdaq Global Market. If we or our PRC optionees fail to comply with these regulations, we or our PRC optionees may be subject to fines and legal or administrative sanctions.

**The approval of the China Securities Regulatory Commission, or CSRC, may be required in connection with this offering under a recently adopted PRC regulation. Any requirement to obtain prior CSRC approval could delay this offering and a failure to obtain this approval, if required, could have a material adverse effect on our business, operating results, reputation and trading price of our ADSs, and may also create uncertainties for this offering.**

On August 8, 2006, six PRC regulatory agencies, including the CSRC, promulgated a regulation that purported to require an offshore special purpose vehicle, or SPV, formed for listing purposes and controlled directly or indirectly by PRC companies or individuals to obtain CSRC approval prior to the listing and trading of such SPV's securities on an overseas stock exchange. The application of this new PRC regulation is unclear. On September 21, 2006, the CSRC issued a clarification that sets forth the criteria and process for obtaining any required approval from the CSRC.

Our PRC counsel, Grandall Legal Group, has advised us that:

the CSRC approval requirement applies to SPVs that acquired equity interests in PRC companies through share exchanges and cash and seek overseas listing; and

based on their understanding of the current PRC laws, rules and regulations and the new regulation, unless there are new PRC laws, rules and regulations or clear requirements from the CSRC in any form that require the prior approval of the CSRC for the listing and trading of any SPV's securities on an overseas stock exchange, the new regulation does not require that we obtain prior CSRC approval for the listing and trading of our ADSs on the Nasdaq Global Market, because we completed our reorganization under which CDTC was established and assets and business were subsequently transferred from CDMTV to CDTC prior to September 8, 2006, the effective date of the new regulation.

However, if the CSRC determines that its prior approval was required, we may face regulatory actions or other sanctions from the CSRC or other PRC regulatory agencies. These regulatory agencies may impose fines and penalties on our operations, limit our operating privileges, delay or restrict the repatriation of the proceeds from this offering into China, or take other actions that could have a material adverse effect on our business, financial condition, results of operations, reputation and prospects, as well as the trading price of our ADSs. The CSRC or other PRC regulatory agencies may also take actions requiring us, or making it advisable for us, to halt this offering before settlement and delivery of the ADSs offered hereby. Consequently, if you engage in market trading or other activities in anticipation of, and prior to, settlement and delivery, you do so at the risk that settlement and delivery may not occur.

We cannot predict when the CSRC may promulgate additional rules or other guidance, if at all. If implementing rules or guidance are issued prior to the completion of this offering and consequently we conclude we are required to obtain CSRC approval, this offering will be delayed until we obtain CSRC approval, which may take several months or longer. Furthermore, any delay in the issuance of such implementing rules or guidance may create additional uncertainties with respect to this offering. Moreover, implementing rules or guidance, to the extent issued, may fail to resolve current ambiguities under this new PRC regulation. Uncertainties and/or negative publicity regarding this new PRC regulation could have a material adverse effect on the trading price of our ADSs.

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**If any of our PRC affiliates becomes the subject of a bankruptcy or liquidation proceeding, we may lose the ability to use and enjoy those 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 foreign ownership restrictions in the advertising business, we currently conduct our operations in China through contractual arrangements with CDMTV, its shareholders and subsidiaries. As part of these arrangements, CDMTV and its subsidiaries hold some of the assets that are important to the operation of our business. If any of these entities become 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 CDMTV or any of its subsidiaries undergoes a voluntary or involuntary liquidation proceeding, its 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 our revenues in Renminbi. Under our current corporate structure, our income is primarily derived from dividend payments from our PRC subsidiary. Shortages in the availability of foreign currency may restrict the ability of our PRC subsidiary to remit sufficient foreign currency to pay dividends or other payments to us, or otherwise satisfy their foreign currency-denominated obligations. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures from trade related transactions, can be made in foreign currencies without prior approval from SAFE by complying with certain procedural requirements. However, approval from SAFE or its local branch is required where Renminbi is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of loans denominated in foreign currencies. The PRC government may also, at its discretion, restrict access in the future to foreign currencies for current account transactions. If the foreign exchange control system prevents us from obtaining sufficient foreign currency to satisfy our currency demands, we may not be able to pay dividends in foreign currencies to our shareholders, including holders of our ADSs.

### **Fluctuations in exchange rates could result in foreign currency exchange losses.**

The exchange rate between the Renminbi and the U.S. dollar, Euro and other foreign currencies is affected by, among other things, changes in China's political and economic conditions. On July 21, 2005, the PRC government changed its decade-old policy of pegging the value of the Renminbi to the U.S. dollar. Under the new policy, the Renminbi is permitted to fluctuate within a narrow and managed band against a basket of foreign currencies. This change in policy has resulted in significant appreciation of the Renminbi against the U.S. dollar.

There remains significant international pressure on the PRC government to adopt a more flexible currency policy, which could result in a further and more significant appreciation of the Renminbi against the U.S. dollar. As we rely on dividends paid to us by our operating subsidiary, any significant revaluation of the Renminbi may have a material adverse effect on the value of, and dividends payable on, our ADSs in foreign currency terms. To the extent that we need to convert U.S. dollars we receive from our initial public offering into Renminbi for our operations, appreciation of the Renminbi against the U.S. dollar would have an adverse effect on the Renminbi amount we would receive from the conversion. Conversely, if we decide to convert our Renminbi into U.S. dollars for the purpose of making payments for dividends on our 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. In addition, appreciation or depreciation in the value of the Renminbi

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relative to the U.S. dollar would affect 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 foreign currency exchange risk. 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 successfully hedge our exposure at all. In addition, our currency exchange losses may be aggravated by PRC exchange control regulations that restrict our ability to convert Renminbi into foreign currency.

**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 subsidiary and consolidated affiliates are incorporated in the PRC and are governed by PRC income tax law, and are generally subject to enterprise income tax at a rate of 33%. Located in the Shenzhen Special Economic Zones in the PRC, CDTC and CDMTV enjoy a preferential tax rate of 15%. CDMTV has been recognized as a culture enterprise and thus its headquarters are entitled to full exemption from enterprise income tax from 2005 to 2007. CDMTV has sales branches located in various cities in the PRC which are subject to standard enterprise income tax at a rate of 33%. However, we cannot assure you that the current preferential tax treatments enjoyed by our PRC operating subsidiary and consolidated affiliates will continue. Moreover, any legislative changes to the tax regime could discontinue or reduce any preferential tax treatment and increase the enterprise income tax rate applicable to our subsidiary and consolidated affiliates in the PRC.

On March 16, 2007, the new PRC Enterprise Income Tax Law, or the EIT Law, was enacted. Under the EIT Law, effective January 1, 2008, the PRC will adopt a uniform tax rate of 25% for all enterprises (including foreign-invested enterprises) and revoke the current tax exemption, reduction and preferential treatments applicable to foreign-invested enterprises. However, there will be a transition period for enterprises, whether foreign-invested or domestic, that are currently receiving preferential tax treatments granted by relevant tax authorities. Enterprises that are subject to an enterprise income tax rate lower than 25% 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.

We currently cannot estimate the amount or materiality of income tax expenses, if any, because the transition arrangement from 15% to 25% tax rate applicable to our subsidiary and our consolidated affiliates is unknown. Reduction or elimination of preferential tax treatments we currently enjoy or imposition of additional taxes on us or our subsidiary in China may significantly increase our income tax expense and materially reduce our net income.

**We may be treated as a resident enterprise for PRC tax purposes after the EIT Law becomes effective on January 1, 2008, which may subject us to PRC income tax for any dividends we receive from our subsidiary and withholding for any dividends we pay to our non-PRC shareholders and ADS holders.**

Under the EIT Law, enterprises established outside of China whose de facto management bodies are located in China are considered resident enterprises, and will generally be subject to the uniform 25% enterprise income tax rate for their global income. The EIT Law does not define the term de facto management bodies and the circumstances under which an enterprise's de facto management body would be considered to be located in China are currently unclear. Our management is currently based in China and is expected to remain in China after the effectiveness of the EIT Law. In addition, although the EIT Law provides that dividend income between qualified resident enterprises is exempted income, it is unclear what is considered a qualified resident enterprise. If we are required to pay income tax for any dividends we receive from our subsidiary, the amount of dividends we can pay to our shareholders and ADS holders could be materially reduced.



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Furthermore, unlike the Income Tax Law for Enterprises with Foreign Investment and Foreign Enterprise currently in effect, which specifically exempts withholding tax on any dividends payable to non-PRC investors, the EIT Law provides that an income tax rate of 20% will normally be applicable to dividends payable to non-PRC investors which are derived from sources within China, although such income tax may be exempted or reduced by the State Counsel of the PRC or pursuant to a tax treaty between China and the jurisdictions in which our non-PRC shareholders reside. It is unclear whether any dividends payable to non-PRC investors will be deemed to be derived from sources within China and be subject to PRC income tax. If we are required under the EIT Law to withhold income tax on dividends payable to our non-PRC shareholders and ADS holders, the value of your investment may be materially and adversely affected.

### **Gains from the investment in our shares or ADSs may become subject to PRC income taxes.**

Under the EIT Law, our non-PRC shareholders or ADS holders may be subject to a 20% income tax upon any gains they realize from the sale of our common shares or ADSs, if such gains are regarded as income from sources within the PRC. Such tax may be exempted pursuant to a tax treaty between China and the jurisdictions in which our non-PRC shareholders reside. Since no rules or guidance concerning the EIT law has been issued, it is unclear what will constitute income derived from sources within the PRC. In addition, it is not clear whether there will be any exemption or reduction in taxation for our non-PRC investors. If you are required to pay PRC income tax on gains realized from their investments in our shares or ADSs, the value of your investment in our ADSs may be materially and adversely affected.

### **We face risks related to health epidemics and other outbreaks.**

Our business could be materially and adversely affected by the outbreak of avian influenza, severe acute respiratory syndrome, or SARS, or another epidemic. In 2005 and 2006, there were reports on the occurrences of avian influenza in various parts of China, including a few confirmed human cases and deaths. Any prolonged recurrence of avian influenza, SARS or other adverse public health developments in China may significantly reduce the number of passengers using mass transportation systems and the effectiveness of advertisements shown on our network. This in turn may have a material and adverse effect on our business operations. We have not adopted any written preventive measures to combat any future outbreak of avian influenza, SARS or any other epidemic.

## **Risks Relating to this Offering**

### **There has been no public market for our shares or ADSs prior to this offering, and you may not be able to resell our ADSs at or above the price you paid, or at all.**

Prior to this initial public offering, there has been no public market for our shares or ADSs. We have applied to list our ADSs on the Nasdaq Global Market. Our common shares will not be listed on any exchange or quoted for trading on any automated quotation system. If an active trading market for our ADSs does not develop after this offering, the market price and liquidity of our ADSs will be materially and adversely affected.

The initial public offering price for our ADSs will be determined by negotiations between us and the underwriters and may bear no relationship to the market price for our ADSs after the initial public offering. An active trading market for our ADSs may not develop and the market price of our ADSs may decline below the initial public offering price.

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

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

actual or anticipated fluctuations in our quarterly operating results;

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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;

addition or departure of our executive officers;

release or expiry of lock-up or other transfer restrictions on our outstanding common shares or ADSs; and

sales or perceived sales of additional common shares or ADSs.

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

**Since the initial public offering price is substantially higher than our net tangible book value per share, you will incur immediate and substantial dilution.**

If you purchase our ADSs in this offering, you will pay more for your ADSs than the amount paid by our existing shareholders for their common shares on a per ADS basis. As a result, you will experience immediate and substantial dilution of approximately US\$5.69 per ADS, representing the difference between our net tangible book value per ADS as of September 30, 2007 and the initial public offering price per ADS. In addition, you may experience further dilution to the extent that our common shares are issued upon the exercise of share options. See [Dilution](#) for a more complete description of how the value of your investment in our ADSs will be diluted upon completion of this offering.

**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 after this offering, or the perception that these sales could occur, could cause the market price of our ADSs to decline. Upon completion of this offering, we will have 68,349,838 common shares outstanding, including 13,500,000 common shares represented by 13,500,000 ADSs. All ADSs sold in this offering will be freely transferable without restriction or additional registration under the Securities Act of 1933, as amended, or the Securities Act. We and all of our institutional shareholders, directors and executive officers have entered into the lock-up agreements described below. As a result, an aggregate of 54,644,088 common shares will be subject to the lock-up agreements. Upon the completion of this offering, the percentage of shares held by our shareholders not subject to such lock-up agreements, namely shareholders who are neither our directors nor our executive officers, or non-locked-up shareholders, amounts to 0.3% of our outstanding share capital. Prior to the expiry of the lock-up period as described below, assuming (i) all options eligible for exercise held by all non-locked-up shareholders and other option holders who are neither directors nor senior officers are exercised in full; and (ii) no additional shares are issued by our company, the percentage of shares held by the non-locked-up shareholders and such other option holders would amount to 3.8% of our share capital upon the completion of this offering. The remaining common shares outstanding after this offering will be available for sale upon the expiration of certain lock-up arrangements entered into among us, the underwriters and other shareholders as further described under [Underwriting](#) and [Shares Eligible for Future Sale](#). In addition, common shares that certain option holders will receive when they exercise their share

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options will not be available for sale until the expiration of any relevant lock-up periods, subject to volume and other restrictions that may be applicable under Rule 144 and Rule 701 under the Securities Act. We cannot predict what effect, if any, market sales of securities held by our significant shareholders or any other shareholder, or the availability of these securities for future sale, will have on the market price of our ADSs.

In addition, certain of our shareholders or their transferees and assignees will have the right to cause us to register the sale of their shares under the Securities Act upon the occurrence of certain circumstances. See Description of Share Capital. Registration of these shares under the Securities Act would result in these shares becoming freely tradable without restriction under the Securities Act immediately upon the effectiveness of the registration. Sales of these registered shares in the public market could cause the price of our ADSs to decline.

### **Anti-takeover provisions in our charter documents may discourage acquisition of our company by a third party, which could limit our shareholders' opportunity to sell their shares at a premium.**

Our third amended and restated memorandum and articles of association, which will become effective upon the completion of this offering, will 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 will have 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. Preferred shares could thus be issued quickly with terms calculated to delay or prevent a change in control or make removal of management more difficult. In addition, if our board of directors issues preferred shares, the market price of our common shares may fall and the voting and other rights of the holders of our common shares may be 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 third amended and restated memorandum and articles of association, the Cayman Islands Companies Law (as amended) and the common law of the Cayman Islands. The rights of shareholders to take action against the directors, actions by minority shareholders and the fiduciary responsibilities of our directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as from English common law, which has persuasive, but not binding, authority on a court in the Cayman Islands. The rights of our shareholders and the fiduciary responsibilities of our directors under Cayman Islands law are not as clearly established as they would be under statutes or judicial precedent in some jurisdictions in the United States. In particular, the Cayman Islands has a less developed body of securities laws than the United States. In addition, some U.S. states, such as Delaware, have more fully developed and judicially interpreted bodies of corporate law than the Cayman Islands. Furthermore, Cayman Islands companies may not have standing to initiate a shareholder derivative action in a federal court of the United States. As a result, public shareholders may have more difficulties in protecting their interests in the face of actions taken by management, members of the board of directors or controlling shareholders than they would as shareholders of a Delaware company.

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

We are a Cayman Islands company and substantially all of our assets are located outside of the United States. All of our current operations are conducted in the PRC. In addition, most of our directors and officers are

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

**We have not determined a specific use for a portion of our net proceeds from this offering and we may use these proceeds in ways with which you may not agree.**

We have not determined a specific use for a portion of our net proceeds of this offering. Our management will have considerable discretion in the application of these proceeds received by us. You will not have the opportunity, as part of your investment decision, to assess whether the proceeds are being used appropriately. You must rely on the judgment of our management regarding the application of the net proceeds of this offering. The net proceeds may be used for corporate purposes that do not improve our profitability or increase our ADS price. The net proceeds from this offering may also be placed in investments that do not produce income or lose value.

**Holders of ADSs have fewer rights than shareholders and must act through the depository 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 depository 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 depository 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 depository to vote your ADSs. Furthermore, the depository 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 depository 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 depository 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 depository with our notice of meeting and related voting materials in a timely fashion;

we have instructed the depository that we do not wish a discretionary proxy to be given;

we have informed the depository that there is substantial opposition to a matter to be voted on at the meeting; or

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a matter to be voted on at the meeting would have a material adverse impact on shareholders.

The effect of this discretionary proxy is that you cannot prevent our 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 depository. However, the depository 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 depository may refuse to deliver, transfer or register transfers of ADSs generally when our books or the books of the depository are closed, or at any time if we or the depository 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 depository will not make rights available to you unless either the rights and any related securities are both registered under the Securities Act, or the distribution of them to ADS holders is exempted from registration under the Securities Act. We are under no obligation to file a registration statement with respect to any such rights or securities or to endeavor to cause such a registration statement to be declared effective. Moreover, we may not be able to establish an exemption from registration under the Securities Act. Accordingly, you may be unable to participate in our rights offerings and may experience dilution in your holdings.

In addition, the depository 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 after deducting its fees and expenses. You will receive these distributions in proportion to the number of common shares your ADSs represent. However, the depository may, at its discretion, decide that it is impractical to make a distribution available to any holders of ADSs. For example, the depository may determine that it is not practicable to distribute certain property through the mail, or that the value of certain distributions may be less than the cost of mailing them. In these cases, the depository may decide not to distribute such property and you will not receive such distribution.

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**FORWARD-LOOKING STATEMENTS**

This prospectus contains forward-looking statements that involve risks and uncertainties. All statements other than statements of historical facts are forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from those expressed or implied by the forward-looking statements.

You can identify these forward-looking statements by words or phrases such as may, will, expect, anticipate, aim, estimate, intend, likely to or other similar expressions. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs. These forward-looking statements include:

our growth strategies;

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

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

our ability to manage the expansion of our operations;

changes in general economic and business conditions in China; and

trends and competition in the mobile digital television advertising industry.

The forward-looking statements made in this prospectus relate only to events or information as of the date on which the statements are made in this prospectus. We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise, after the date on which the statements are made or to reflect the occurrence of unanticipated events. You should read this prospectus and the documents that we reference in this prospectus and have filed as exhibits to the registration statement that includes this prospectus with the understanding that our actual future results may be materially different from what we expect. You should not rely upon forward-looking statements as predictions of future events.

Other sections of this prospectus include additional factors which could adversely impact our business and financial performance. Moreover, we operate in an evolving environment. New risk factors and uncertainties emerge from time to time and it is not possible for our management to predict all risk factors and uncertainties, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

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**USE OF PROCEEDS**

We will receive net proceeds from this offering of approximately US\$96.9 million, after deducting underwriting discounts and commissions and the estimated offering expenses payable by us. We will not receive any of the proceeds from the sales of ADSs by the selling shareholders.

We intend to use the net proceeds we will receive from this offering for the following purposes:

up to US\$85 million for the expansion of our network into new cities and new media platforms; and

the remaining portion of the net proceeds for other general corporate purposes and for potential acquisitions of complementary businesses, although we are not currently negotiating any such transactions.

We do not expect to use the proceeds from this offering to fund our currently planned capital expenditures for the remainder of 2007 and 2008. The foregoing represents our current intentions to use and allocate the net proceeds of this offering based upon our present plans and business conditions. Our management, however, will have significant flexibility and discretion to apply the net proceeds of this offering. If an unforeseen event occurs or business conditions change, we may use the proceeds of this offering differently than as described in this prospectus.

Pending use of the net proceeds, we intend to hold our net proceeds in demand deposits or invest them in interest-bearing government securities.

In utilizing the proceeds from this offering, under PRC laws and regulations, we, as an offshore holding company, are permitted to provide funding to our PRC subsidiary and consolidated affiliates only through loans or capital contributions and to other entities only through loans. Subject to satisfaction of applicable government registration and approval requirements, we may extend inter-company loans to our PRC subsidiary and consolidated affiliates or make additional capital contributions to our PRC subsidiary and consolidated affiliates to fund their capital expenditures or working capital. We cannot assure you that we will be able to obtain these government registrations or approvals on a timely basis, if at all. See **Risk Factors** **Risks Related to Doing Business in China** PRC regulation of loans and direct investment by offshore holding companies to PRC entities may delay or prevent us from using the proceeds of this offering to make loans or additional capital contributions to our PRC operating subsidiary and affiliates.

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**DIVIDEND POLICY**

Since our incorporation, we have never declared or paid any dividends and we have no present plan to declare and pay any dividends on our common shares or ADSs in the near future. We currently intend to retain most, if not all, of our available funds and any future earnings to operate and expand our business. Our board of directors has complete discretion as to whether to distribute dividends. Even if our board of directors decides to pay dividends, the form, frequency and amount will depend upon our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that our board of directors may deem relevant.

We are a holding company incorporated in the Cayman Islands. We rely on dividends from our subsidiary in China, which in turn relies on the payments received from our PRC consolidated entities pursuant to the contractual arrangements that established our corporate structure. Current PRC laws, rules and regulations permit our PRC subsidiary to pay dividends to us only out of its accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, our subsidiary in China is required to set aside a certain amount of its accumulated after-tax profits each year, if any, to fund statutory reserves. These reserves may not be distributed as cash dividends. Further, if our subsidiary in China incurs debt on its own behalf, the instruments governing the debt may restrict its ability to pay dividends or make other payments to us.

If we pay any dividends, we will pay our ADS holders to the same extent as holders of our common shares, subject to the terms of the deposit agreement, including the fees and expenses payable thereunder. Cash dividends on our common shares, if any, will be paid in U.S. dollars.



**Table of Contents****CAPITALIZATION**

The following table sets forth our capitalization as of September 30, 2007:

on an actual basis; and

on an as adjusted basis to reflect (1) the automatic conversion of all of our outstanding Series A and Series B preferred shares into 32,139,088 common shares upon the completion of this offering, and (2) the sale of 13,500,000 common shares in the form of ADSs by us in this offering at an initial public offering price of US\$8.00 per ADS, after deducting the underwriting discounts and commissions and estimated offering expenses payable by us.

You should read this table together with our consolidated financial statements and the related notes included elsewhere in this prospectus and the information under Management's Discussion and Analysis of Financial Condition and Results of Operations.

	<b>As of September 30, 2007</b>	
	<b>Actual</b>	<b>As adjusted (US\$)</b>
Series A convertible redeemable preferred shares, US\$0.0001 par value, 15,994,173 shares authorized, 14,250,000 shares issued and outstanding	16,839,608	
Series B convertible redeemable preferred shares, US\$0.0001 par value, 17,889,088 shares authorized, 17,889,088 shares issued and outstanding	41,233,310	
Shareholders' equity:		
Common shares,		
US\$0.0001 par value, 76,116,739 shares authorized, 22,000,000 shares issued and outstanding <sup>(1)</sup>	2,200	6,764
Additional paid-in capital	6,259,080	161,271,434
Accumulated deficit	(6,996,178)	(6,996,178)
Accumulated other comprehensive income	1,829,226	1,829,226
Total shareholders' equity	1,094,328	156,111,246
Total capitalization	59,167,246	156,111,246

(1) Excludes 4,938,639 common shares issuable upon the exercise of options to purchase our common shares outstanding as of September 30, 2007, which were granted under our 2006 share incentive plan.

**Table of Contents****DILUTION**

If you invest in our ADSs, your investment will be diluted for each ADS you purchase to the extent of the difference between the initial public offering price per ADS and our net tangible book value per ADS after this offering. Dilution results from the fact that the initial public offering price per common share is substantially in excess of the book value per share attributable to the existing shareholders for our presently outstanding common shares and holders of our Series A and Series B convertible preferred shares which will be automatically converted into our common shares upon the completion of this offering.

Our net tangible book value as of September 30, 2007 was approximately US\$59.2 million, or US\$2.69 per common share and US\$2.69 per ADS. Net tangible book value represents the amount of our total assets, minus the amount of our total liabilities and intangible assets. Dilution is determined by subtracting net tangible book value per common share, after giving effect to the conversion of all outstanding convertible redeemable preferred shares into our common shares upon the completion of this offering and the proceeds we will receive from this offering after deducting the underwriting discounts and commissions and estimated offering expenses payable by us, from the assumed initial public offering price per common share.

Without taking into account any other changes in such net tangible book value after September 30, 2007, other than giving effect to (i) the conversion of all our outstanding convertible redeemable preferred shares into common shares which will occur automatically upon closing of this offering, and (ii) our sale of the ADSs offered in this offering, at the initial public offering price of US\$8.00 per ADS, after deduction of underwriting discounts and commissions and estimated offering expenses of this offering payable by us, our adjusted net tangible book value as of September 30, 2007 would have increased to US\$156.1 million or US\$2.31 per common share and US\$2.31 per ADS. This represents an immediate increase in net tangible book value of US\$1.22 per common share and US\$1.22 per ADS, to the existing shareholder and an immediate dilution in net tangible book value of US\$5.69 per common share and US\$5.69 per ADS, to investors purchasing ADSs in this offering. The following table illustrates such per common share dilution:

Initial public offering price per common share	US\$ 8.00
Net tangible book value per common share as of September 30, 2007	US\$ 2.69
Pro forma net tangible book value per common share after giving effect to the conversion of redeemable convertible preferred shares	US\$ 1.09
Amount of dilution in net tangible book value per common share to new investors in this offering	US\$ 5.69
Amount of dilution in net tangible book value per ADS to new investors in this offering	US\$ 5.69

The following table summarizes the number of common shares purchased from us as of September 30, 2007, the total consideration paid to us and the average price per common share/ADS paid by existing investors and by new investors purchasing common shares evidenced by ADSs in this offering at the initial public offering price of US\$8.00 per ADS without giving effect to underwriting discounts and commissions and other estimated offering expenses payable by us.

	Common Shares Purchased		Total Consideration		Average Price Per Common Share	Average Price Per ADSs
	Number	Percent	Amount	Percent		
Existing shareholders <sup>(1)</sup>	54,139,088	80.0%	US\$ 64,334,198	37.3%	US\$ 1.19	US\$ 1.19
New investors	13,500,000	20.0	108,000,000	62.7	US\$ 8.00	