

VISIONCHINA MEDIA INC.  
Form F-1/A  
December 05, 2007  
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As filed with the Securities and Exchange Commission on December 5, 2007

Registration No. 333-147275

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# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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AMENDMENT NO. 4

TO

## FORM F-1

## REGISTRATION STATEMENT

*UNDER*

*THE SECURITIES ACT OF 1933*

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# VISIONCHINA MEDIA INC.

(Exact name of Registrant as specified in its charter)

Not Applicable

(Translation of Registrant's name into English)

Cayman Islands  
(State or other jurisdiction of  
incorporation or organization)

7311  
(Primary Standard Industrial  
Classification Code Number)  
1/F Block No.7 Champs Elysees

Not Applicable  
(I.R.S. Employer  
Identification Number)

Nongyuan Road, Futian District

Shenzhen 518040

People's Republic of China

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(86-755) 8293-2222

(Address, including zip code, and telephone number, including area code, of Registrant's principal executive offices)

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CT Corporation System

111 Eighth Avenue

New York, New York 10011

(212) 664-1666

(Name, address, including zip code, and telephone number, including area code, of agent for service)

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**Approximate date of commencement of proposed sale to the public:** as soon as practicable after the effective date of this registration statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.  \_\_\_\_\_

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.  \_\_\_\_\_

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.  \_\_\_\_\_

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**The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to such Section 8(a), may determine.**



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The information in this prospectus is not complete and may be changed. Neither we nor the selling shareholders may sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and we are not soliciting offers to buy these securities in any jurisdiction where the offer or sale is not permitted.

**Subject to Completion**

**Preliminary Prospectus dated \_\_\_\_\_, 2007**

**13,500,000 American Depositary Shares**

**VISIONCHINA MEDIA INC.**

**Representing 13,500,000 Common Shares**

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This is an initial public offering of American depositary shares, or ADSs, of VisionChina Media Inc., or VisionChina. VisionChina is offering 13,500,000 ADSs. Each ADS represents one common share, par value \$0.0001 per share, of VisionChina.

Prior to this offering, there has been no public market for the ADSs or the common shares. We anticipate the initial public offering price will be between \$9.50 and \$11.50 per ADS. We have applied to list the ADSs on the Nasdaq Global Market under the symbol VISION.

**See Risk Factors beginning on page 11 to read about risks you should consider before buying the ADSs.**

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	<b>Initial public offering price</b>	<b>Underwriting discounts and commissions</b>	<b>Proceeds, before expenses, to VisionChina</b>
Per ADS	US\$	US\$	US\$
Total	US\$	US\$	US\$

The underwriters have an option to purchase up to 2,025,000 additional ADSs from the selling shareholders disclosed in this prospectus at the initial public offering price, less the underwriting discounts and commissions, to cover over-allotments of ADSs.

**Neither the United States Securities and Exchange Commission nor any state securities commission or other regulatory body has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.**

The underwriters expect to deliver the ADSs against payment in U.S. dollars in New York, New York on \_\_\_\_\_, 2007.

**Credit Suisse**

**Merrill Lynch & Co.**

**CIBC World Markets**

**Susquehanna Financial Group, LLLP**

The date of this prospectus is \_\_\_\_\_, 2007

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No dealer, salesperson or other person is authorized to give any information or to represent anything not contained in this prospectus. You must not rely on any unauthorized information or representations. This prospectus is an offer to sell only the ADSs offered hereby, but only under circumstances and in jurisdictions where it is lawful to do so. The information in this prospectus is current only as of the date of this prospectus.

Until \_\_\_\_\_, 2007 (the 25th day after the date of this prospectus), all dealers that effect transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealer's obligation to deliver a prospectus when acting as an underwriter and with respect to unsold allotments or subscriptions.

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**PROSPECTUS SUMMARY**

*The following summary is qualified in its entirety by, and should be read in conjunction with, the more detailed information and financial statements appearing elsewhere in this prospectus. In addition to this summary, we urge you to read the entire prospectus carefully, especially the risks of investing in our ADSs discussed under Risk Factors, before deciding whether to buy our ADSs.*

**VisionChina Media Inc.**

**Our Business**

We believe that we operate the largest out-of-home advertising network using real-time mobile digital television broadcasts to deliver content and advertising on mass transportation systems in China based on the number of displays. We operate our advertising business in China through our consolidated affiliated entity, China Digital Mobile Television Co., Ltd., or CDMTV, due to PRC regulatory restrictions on foreign investments in the advertising and mobile digital television industries. Our relationships with CDMTV and its shareholders are governed by a series of contractual arrangements that allow us to effectively control and derive substantially all of the economic benefits from CDMTV. Our mobile digital television advertising network, or our network, which delivers real-time content provided by the local television stations in addition to advertising, differentiates us from other out-of-home advertising networks in China, and we believe this facilitates our future expansion into different advertising media platforms. Our advertising network consists of digital television displays located on buses and other selected locations that receive mobile digital television broadcasts of real-time content and advertising. As of September 30, 2007, our network covered 14 economically prosperous cities in China and consisted of approximately 33,000 digital television displays. In addition, we have expanded the geographic reach of our advertising operations by purchasing advertising time on existing mobile digital television networks in cities outside of our network to place advertisements pursuant to the demands of our clients. As a supplement to our mobile digital television advertising network, we also operate a stationary advertising platform in subway stations in two major cities in China, Guangzhou and Shenzhen.

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

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

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



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We use the following business models for our mobile digital television advertising operations in China:

***Exclusive agency model*** refers to our arrangements with terms ranging from four years to twelve years in seven cities, Beijing, Chengdu, Guangzhou, Nanjing, Ningbo, Shenzhen and Wuxi. In Beijing, Chengdu, Guangzhou, Nanjing, Ningbo and Shenzhen, we have entered into an exclusive advertising agency agreement with the partner local mobile digital television company that gives us the exclusive right to sell all of the advertising time on our local partner's mobile digital television network located on buses. Those buses are operated by bus companies that have entered into contracts with our local partners, or, in the case of Guangzhou, those buses are operated by a number of bus companies with which we expect to enter into contracts through our local affiliate by June 2008. Our exclusive agency agreements with our direct investment entities in Chengdu and Ningbo will become effective on January 1, 2008. Our exclusive agency arrangement in Wuxi that gives us the exclusive right to sell a portion of the advertising time on Wuxi's mobile digital television network does not include sales of advertising time to advertisers from Wuxi.

***Direct investment model*** refers to our arrangements in 11 cities where we and a partner local television station, or its affiliate, have formed a jointly-owned mobile digital television operating company in which we hold a minority equity interest. We refer to these jointly-owned mobile digital television operating companies as direct investment entities in this prospectus. This model gives us the opportunity to work in conjunction with the local television station to provide programs to meet the demands of our audience and advertising clients. In some of our cities, such as Chengdu, Ningbo, Shenzhen and Wuxi, we have entered into an exclusive agency agreement with our direct investment entity to secure the exclusive right to sell advertising time on that network. For the cities where we have not entered into an exclusive agency agreement, we purchase advertising time from our direct investment entities and resell them to our advertising clients. This model also facilitates our entry into other advertising media platforms such as displays located in government buildings.

***Outreach agency model*** refers to our operations in other cities where we purchase advertising time from an existing mobile digital television company outside of our network, either directly or through an agent at the request of our clients. This model works in conjunction with our network arrangements to extend the reach of our advertising operations to cover substantially all of the major advertising markets in China.

Through September 30, 2007, more than 230 advertisers had purchased advertising time on our network either directly or through an advertising agent. We have the ability to place advertisements in one or more cities, both within and beyond our network, according to their demands. As of September 30, 2007, we have placed advertisements in 26 cities across China. Our top two international brand name advertisers, Yum! Brands, Inc. (whose brand portfolio includes KFC, Pizza Hut and Taco Bell) and Spalding Group, in aggregate accounted for approximately 7% of our advertising service revenues for the nine months ended September 30, 2007. Our top five domestic brand name advertisers, China Citic Bank, Guangxi Wuzhou Pharmaceutical Group Co., Ltd., Hangzhou Minsheng Pharmaceutical Group Co., Ltd., Nice Group Co., Ltd. and Jilin Wutaigankang Pharmaceutical Industry Co. in aggregate accounted for approximately 31% of our advertising service revenues for the nine months ended September 30, 2007. We have grown significantly since our inception in April 2005. We generated total revenues of US\$3.9 million in 2006 and US\$17.4 million for the nine months ended September 30, 2007. We achieved net income of US\$3.7 million in the nine months ended September 30, 2007, but we incurred a net loss of US\$4.1 million for the year ended December 31, 2006.

**Our Industry**

China has the largest advertising market in Asia, excluding Japan, and it is one of the largest and fastest-growing advertising markets in the world, according to ZenithOptimedia. The advertising market in China grew in recent years as a result of, among other factors, the rapid increase in disposable income and consumption of urban residents in China. The National Bureau of Statistics of China reported that the annual

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per capita in urban households increased from RMB7,703 in 2002 to RMB11,759 in 2006, representing a compound annual growth rate, or CAGR, of 11.2%. In Beijing, Guangzhou and Shenzhen, where we have major operations, the urban household annual disposable income per capita in 2006 was RMB19,978, RMB19,851 and RMB22,567, respectively, representing a level significantly above the national average.

We believe that as people living in China's major cities become more mobile due to their increased business activities, advertisers will be more willing to allocate a larger portion of their advertising budgets to reach consumers using mass transportation systems. According to a study commissioned by us and conducted by CTR Market Research, or CTR, an independent research institution, in September 2007, a total of over 25 million trips were taken daily on public buses with mobile digital television displays in Beijing, Changchun, Chengdu, Dalian, Harbin, Nanjing, Ningbo, Shenzhen, Suzhou, Wuhan, Wuxi and Zhengzhou. We have mobile digital television advertising operations in each of these cities either through exclusive agency arrangements, direct investment entities, or both.

## **Our Competitive Strengths**

We believe that the following competitive strengths contribute to our success and differentiate us from our competitors:

The largest mobile digital television advertising network operator covering mass transportation in China based on the number of displays;

Real-time ability to deliver time-specific and location-based content and advertising;

Exclusive and long-term contractual arrangements;

Highly effective advertising solution with content; and

Strong management and sales team with extensive experience.

## **Our Strategies**

Our objectives are to strengthen our position as the largest mobile digital television advertising network and to become a provider of comprehensive digital media advertising services in China. We intend to achieve these objectives by implementing the following strategies:

Expand the coverage and penetration of our network;

Maximize our average revenues per hour;

Continue to pursue exclusive arrangements with additional mobile digital television companies;

Continue to explore new digital media technologies and techniques in order to enhance the effectiveness of our network;

Expand our network to other advertising media platforms; and

Pursue strategic relationships and acquisitions.

**Our Challenges**

We face risks and uncertainties, including those relating to:

our history of incurring losses and the possibility that we may be unable to achieve and sustain profitability in the future;

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acceptance by advertisers of mobile digital television installed on mass transportation systems as part of their marketing strategy;

our ability to establish and maintain business relationships with our local operating partners, and our and their ability to establish and maintain business relationships with mass transportation companies;

our ability to manage our growth;

our reliance on our contractual arrangements with CDMTV and its shareholders to conduct our advertising business in China;

our ability to respond to competitive pressures; and

uncertainties with respect to government controls and regulations relating to the mobile digital television and advertising industries.

Please see **Risk Factors** and other information included in this prospectus for a detailed discussion of these risks and uncertainties.

**Corporate Structure**

We commenced operations in 2005 through CDMTV, a company established in China, and its subsidiaries and affiliates. In January 2006, we established a holding company, CDMTV Holding Company, under the laws of the Cayman Islands as part of our effort to raise capital from investors outside of China. On August 13, 2007, we changed our name to VisionChina Media Inc.

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The following diagram illustrates our corporate structure as of the date of this prospectus:

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**Corporate Information**

Our principal executive offices are located at 1/F Block No. 7, Champs Elysees, Nongyuan Road, Futian District, Shenzhen 518040, People's Republic of China. Our telephone number at this address is (86 755) 8293-2222 and our fax number is (86 755) 8298-1111. Our registered office in the Cayman Islands is located at the offices of M&C Corporate Services Limited, P.O Box 309GT, Uglund House, South Church Street, George Town, Grand Cayman, Cayman Islands. Our agent for service of process in the United States is CT Corporation System, located at 111 Eighth Avenue, New York, New York 10011.

Investors should contact us for any inquiries through the address and telephone number of our principal executive offices. Our principal website is [www.visionchina.cn](http://www.visionchina.cn). The information contained on our website is not a part of this prospectus.

**Conventions Which Apply to this Prospectus**

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

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

China or the PRC refers to the People's Republic of China, excluding, for the purpose of this prospectus only, Taiwan, Hong Kong and Macau;

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

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

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

we, us, our company, our and VisionChina refer to VisionChina Media Inc., a Cayman Islands company, its predecessor entity and subsidiary, and its consolidated affiliated entities, including CDMTV and its subsidiaries. Although VisionChina does not directly or indirectly own any equity interest in CDMTV, VisionChina effectively controls CDMTV through a series of contractual arrangements. We treat CDMTV as a variable interest entity and have consolidated its financial results in our financial statements in accordance with generally accepted accounting principles in the United States, or U.S. GAAP.

Unless otherwise indicated, information in this prospectus assumes that the underwriters do not exercise their option to purchase additional ADSs.

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**The Offering**

Offering price	We estimate that the initial public offering price will be between US\$9.50 and US\$11.50 per ADS.
ADSs offered by us	13,500,000 ADSs.
Total ADSs offered	13,500,000 ADSs.
Common shares outstanding immediately after this offering	68,349,838 common shares.
The ADSs	<p>Each ADS represents one common share, par value US\$0.0001 per share.</p> <ul style="list-style-type: none"> <li>• The depositary will hold the common shares underlying your ADSs. You will have the rights as provided in the deposit agreement.</li> <li>• If, however, we declare dividends on our common shares, the depositary will pay you the cash dividends and other distributions it receives on our common shares, after deducting its fees and expenses.</li> <li>• You may turn in your ADSs to the depositary in exchange for common shares. The depositary will charge you fees for any exchange.</li> <li>• We may amend or terminate the deposit agreement without your consent. If you continue to hold your ADSs, you agree to be bound by the deposit agreement as amended.</li> </ul> <p>To better understand the terms of the ADSs, you should carefully read the section of this prospectus entitled Description of American Depositary Shares. You should also read the deposit agreement, which is filed as an exhibit to the registration statement that includes this prospectus.</p>
Over-allotment option	The selling shareholders have granted to the underwriters an option, which is exercisable within 30 days from the date of this prospectus, to purchase up to 2,025,000 additional ADSs.
Reserved ADSs	At our request, the underwriters have reserved for sale, at the initial public offering price, up to an aggregate of 675,000 ADSs to certain business associates of our company and other persons through a directed share program.

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Use of proceeds

Our net proceeds from this offering are expected to be approximately US\$128.3 million, assuming an initial public offering price per ADS of US\$10.50, the mid-point of the estimated public offering price



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range set forth on the cover of this prospectus after deducting the underwriting discounts and commissions and estimated offering expenses payable by us.

We intend to use our net proceeds from this offering to fund capital expenditures in connection with the expansion of our advertising network and operations and for general corporate purposes, including funding possible acquisitions of complementary businesses, although we are not currently negotiating any such transactions. See [Use of Proceeds](#) for additional information.

We will not receive any of the proceeds from the sales of the ADSs by the selling shareholders.

Lock-up	We have agreed with the underwriters to a lock-up of shares for a period of 180 days after the date of this prospectus. In addition, our executive officers, directors and all of our institutional shareholders have also agreed with the underwriters to a lock-up of shares for a period of 180 days after the date of this prospectus. See <a href="#">Underwriting</a> .
Listing	We have applied to list the ADSs on the Nasdaq Global Market under the symbol <a href="#">VISN</a> . The ADSs will not be listed on any other exchange or traded on any automated quotation system. Our shares will not be listed on any exchange or traded on any automated quotation system.
Risk factors	See <a href="#">Risk Factors</a> and other information included in this prospectus for a discussion of risks you should carefully consider before investing in our ADSs.
Depositary	The Bank of New York.
Custodian	The Hong Kong and Shanghai Banking Corporation Limited.
The number of common shares that will be outstanding immediately after this offering:	

assumes the conversion of all outstanding preferred shares into 32,139,088 common shares immediately prior to the completion of this offering;

excludes 5,067,889 common shares issuable upon the exercise of options outstanding as of the date of this prospectus, at a weighted average exercise price of US\$3.82 per share; and

excludes common shares reserved for future issuances under our share incentive plan.

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The following summary condensed consolidated statement of operations for the period from April 8, 2005 (date of inception) to December 31, 2005 and for the year ended December 31, 2006 and the condensed consolidated balance sheet data as of December 31, 2005 and 2006 have been derived from our consolidated financial statements included elsewhere in this prospectus, which have been audited by Deloitte Touche Tohmatsu CPA Ltd., an independent registered public accounting firm, and are prepared and presented in accordance with U.S. GAAP. The following summary condensed consolidated statement of operations data for the nine months ended September 30, 2006 and 2007 and the condensed consolidated balance sheet data as of September 30, 2007 have been derived from our unaudited interim condensed consolidated financial statements included elsewhere in this prospectus. We have prepared the unaudited interim condensed consolidated financial statements on the same basis as our audited consolidated financial statements. The unaudited interim condensed consolidated financial statements include all adjustments, consisting only of normal and recurring adjustments, which we consider necessary for a fair presentation of our financial position and operating results for the periods presented. You should read the following information in conjunction with our consolidated financial statements and related notes, Selected Condensed Consolidated Financial Data and Management's Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this prospectus. Our historical results do not necessarily indicate our results expected for any future periods.

	<b>For the Period from April 8, 2005 (date of inception) to December 31, 2005</b>	<b>For the Year Ended December 31, 2006 (US\$, except number of shares)</b>	<b>For the Nine Months Ended September 30,</b>	
			<b>2006</b>	<b>2007</b>
<b>Condensed Consolidated Statement of Operations Data:</b>				
Revenues:				
Advertising service revenues		2,033,284	892,323	15,802,593
Advertising equipment revenues	290,521	1,839,598	962,375	1,570,662
<b>Total revenues</b>	<b>290,521</b>	<b>3,872,882</b>	<b>1,854,698</b>	<b>17,373,255</b>
Gross profit (loss)	29,017	(1,734,094)	(329,628)	7,373,967
Operating expenses				
Government grant		125,953		
Loss from equity method investees	(104,475)	(469,841)	(230,513)	(779,792)
<b>Operating profit (loss)</b>	<b>(461,673)</b>	<b>(4,145,273)</b>	<b>(1,892,383)</b>	<b>3,627,276</b>
Interest income	45,264	98,873	66,208	97,283
Other expenses		(22,608)	(15,081)	(63,835)
<b>Net income (loss)</b>	<b>(416,409)</b>	<b>(4,069,008)</b>	<b>(1,841,256)</b>	<b>3,660,724</b>
Deemed dividend on convertible redeemable preferred shares		1,583,333	996,263	4,588,152
<b>Net loss attributable to holders of common shares</b>	<b>(416,409)</b>	<b>(5,652,341)</b>	<b>(2,837,519)</b>	<b>(927,428)</b>
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	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

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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      As adjusted <sup>(1)</sup> (US\$)	
<b>Condensed Consolidated Balance Sheet Data:</b>			
Cash and cash equivalents	5,215,693	29,513,127	157,840,627
Total assets	17,043,776	64,699,986	193,027,486
Total current liabilities	1,241,783	5,532,740	5,532,740
Total shareholders' equity	581,666	1,094,328	187,494,746

- (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, assuming an initial public offering price of \$10.50 per ADS, the midpoint of the estimated initial public offering price range set forth on the cover of this prospectus, after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us. A US\$1.00 increase (decrease) in the assumed initial public offering price would increase (decrease) the amounts representing cash and cash equivalents, total assets and total shareholders' equity by US\$12.6 million.

	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 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

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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.

### **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;



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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;

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.

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

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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.

### **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



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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.

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;

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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.

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.

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### **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 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.

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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 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.

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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 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.

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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 ma