

VISIONCHINA MEDIA INC.

Form 20-F/A

January 21, 2011

**Table of Contents**

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

**AMENDMENT NO. 1  
TO  
FORM 20-F**

**(Mark One)**

**o Registration statement pursuant to Section 12(b) or 12(g) of the Securities Exchange Act of 1934  
or**

**þ Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the fiscal year ended December 31, 2009  
or**

**o Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the transition period from to  
or**

**o Shell company report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
Date of event requiring this shell company report  
Commission file number 001-33821**

**VisionChina Media Inc.  
(Exact Name of Registrant as Specified in Its Charter)**

**Cayman Islands  
(Jurisdiction of Incorporation or Organization)  
1/F Block No.7 Champs Elysees  
Nongyuan Road, Futian District  
Shenzhen 518040**

**People's Republic of China  
(Address of Principal Executive Offices)**

**Limin Li, telephone: (86 755) 8293-2222; fax: (86 755) 8298-1111**

**At the address of the Company set forth above**

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

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

<b>Title of Each Class</b>	<b>Name of Each Exchange on Which Registered</b>
Common Shares, par value US\$0.0001 per share	Nasdaq Global Market*
American Depositary Shares, each representing one Common Share	Nasdaq Global Market

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

**None**

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

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

**72,140,684 Common Shares**

**Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.** Yes  No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes  No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

U.S. GAAP

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

Other

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

Item 17  Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Yes  No

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

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12,13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes  No

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



**VISIONCHINA MEDIA INC.  
ANNUAL REPORT ON FORM 20-F  
Table of Contents**

	<b>Page</b>
<u>CONVENTIONS THAT APPLY TO THIS ANNUAL REPORT ON FORM 20-F</u>	3
<u>Part I</u>	3
<u>Item 1. Identity of Directors, Senior Management and Advisers</u>	3
<u>Item 2. Offer Statistics and Expected Timetable</u>	3
<u>Item 3. Key Information</u>	3
<u>Item 4. Information on the Company</u>	33
<u>Item 4A. Unresolved Staff Comments</u>	51
<u>Item 5. Operating and Financial Review and Prospects</u>	51
<u>Item 6. Directors, Senior Management and Employees</u>	73
<u>Item 7. Major Shareholders and Related Party Transactions</u>	81
<u>Item 8. Financial Information</u>	85
<u>Item 9. The Offer and Listing</u>	86
<u>Item 10. Additional Information</u>	87
<u>Item 11. Quantitative and Qualitative Disclosures About Market Risk</u>	93
<u>Item 12. Description of Securities Other Than Equity Securities</u>	94
<u>Part II</u>	96
<u>Item 13. Defaults, Dividend Arrearages and Delinquencies</u>	96
<u>Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds</u>	96
<u>Item 15. Controls and Procedures</u>	97
<u>Item 16A. Audit Committee Financial Expert</u>	98
<u>Item 16B. Code of Ethics</u>	99
<u>Item 16C. Principal Accountant Fees and Services</u>	99
<u>Item 16D. Exemptions From the Listing Standards For Audit Committees</u>	99
<u>Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers.</u>	99
<u>ITEM 16F. Change in Registrant's Certifying Accountant</u>	100
<u>ITEM 16G. Corporate Governance</u>	100
<u>Part III</u>	100
<u>Item 17. Financial Statements</u>	100
<u>Item 18. Financial Statements</u>	100
<u>Item 19. Exhibits</u>	101
<u>EX-4.26</u>	
<u>EX-4.27</u>	
<u>EX-4.28</u>	
<u>EX-12.1</u>	
<u>EX-12.2</u>	
<u>EX-13.1</u>	
<u>EX-13.2</u>	
<u>EX-23.1</u>	

**Table of Contents**

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

Unless otherwise indicated, references in this annual report to:

ADSs refers to our American depositary shares, each of which represents 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 annual report 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;

In 2009, the local television stations with which we established our direct investment entities included: Chengdu Television Station, Shenzhen Media Group, Jilin Television Station, Haerbin Television Station, Dalian Television Station, Henan Cable Television Network Group Co., Ltd., Hubei Broadcast and Television General Station, Wuxi Broadcast and Television Group, Suzhou Broadcast and Television General Station, Changzhou Television Station, and Ningbo Broadcast and Television Group.

In 2009, the local mobile digital television operating companies with which we entered into exclusive agency agreements included: Beijing Beiguang Media Mobile Television Co., Ltd, Beijing Beiguang Metro Media Co., Ltd., Shenzhen Mobile Television Co., Ltd., Guangzhou Pearl River Mobile Multimedia Television Co., Ltd., Guangzhou Metro Television Co., Ltd., Nanjing Guangdian Mobile Television Development Co., Ltd., Chengdu China Digital Mobile Television Co., Ltd., Wuxi Guangtong Digital Mobile Television Co., Ltd., Ningbo China Mobile Television Development Co., Ltd., Shanxi Dazhong Mobile Television Co., Ltd., Jilin Mobile Television Co., Ltd., Dalian Mobile Digital Television Co., Ltd., Hubei China Mobile Television Co., Ltd., Liaoning Beidou Xingkong Digital Television Media Co., Ltd., Hangzhou Guangdian Buses Mobile Multimedia Co., Ltd., Tianjin North Mobile Multimedia Television Co., Ltd., Xiamen Radio and Television Digital Media Co., Ltd., and Suzhou China Mobile Television Co., Ltd.

In 2010, we entered into exclusive agency agreements with three other local mobile digital television operating companies, which are Changzhou China Mobile Television Company Limited, Shanghai Metro Television Company Limited, and Changsha Guangdian Digital Mobile Television Co., Ltd.

In 2009, the local mobile digital television operating companies from which we buy advertising time included Changzhou China Mobile Television Company Limited, Henan Cable China Mobile Television Company Limited and Haerbin China Mobile Television Company Limited.

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

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

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

This annual report includes our audited consolidated financial statements for the years ended December 31, 2007, 2008 and 2009 and as of December 31, 2008 and 2009.

Our ADSs is listed on the Nasdaq Global Market under the symbol VISN.

**Part I**

**Item 1. Identity of Directors, Senior Management and Advisers**

Not Applicable.

**Item 2. Offer Statistics and Expected Timetable**

Not Applicable.

**Item 3. Key Information**

A. Selected Financial Data

The following selected condensed consolidated statement of operations data for the years ended December 31, 2007, 2008 and 2009 and the condensed consolidated balance sheet data as of December 31, 2008 and 2009 have been derived from our consolidated financial statements, which are included elsewhere in this annual report. The following selected condensed consolidated statement of operations data for the period from April 8, 2005 (date of inception) to December 31, 2005 and the year ended December 31, 2006 and the condensed consolidated balance sheet data as of December 31, 2005, 2006 and 2007 have been derived from our consolidated financial statements, which are not included elsewhere in this annual report. You should read the selected condensed consolidated financial data in conjunction with the financial statements and the related notes included elsewhere in this annual report and Item 5. Operating and Financial Review and Prospects. Our consolidated financial statements are prepared and presented in accordance with U.S. GAAP. Our historical results do not necessarily indicate our results expected for any future periods.

**Table of Contents**

	<b>For the Period from April 8, 2005 to December 31, 2005</b>	<b>For the Year Ended December 31,</b>			
		<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
		<b>(US\$, except number of shares)</b>			
<b>Condensed Consolidated Statement of Operations Data:</b>					
Revenues					
Advertising service revenues		2,033,284	27,489,391	103,515,250	120,686,086
Advertising equipment revenues	290,521	1,839,598	1,896,200	565,392	
Total revenues	290,521	3,872,882	29,385,591	104,080,642	120,686,086
Cost of revenues					
Advertising service cost		3,967,081	12,801,957	40,602,022	61,104,381
Advertising equipment cost	261,504	1,639,895	1,583,325	475,432	
Total cost of revenues	261,504	5,606,976	14,385,282	41,077,454	61,104,381
Gross profit (loss)	29,017	(1,734,094)	15,000,309	63,003,188	59,581,705
Operating expenses	386,215	2,067,291	5,098,576	20,126,107	32,046,119
Government grant		125,953			538,085
Loss from equity method investees	(104,475)	(469,841)	(1,262,273)	(484,969)	(998,606)
Operating (loss) profit	(461,673)	(4,145,273)	8,639,460	42,392,112	27,075,065
Interest income	45,264	98,873	505,888	3,480,212	1,860,017
Interest expense					(109,590)
Government grant				672,515	
Other expenses		(22,608)	(95,719)	(38,491)	(1,278)
Net (loss) income before income taxes	(416,409)	(4,069,008)	9,049,629	46,506,348	28,824,214
Income tax benefits(expenses)			332,386	212,325	(2,348,354)
Net loss attributable to non-controlling interest			11,343	91,277	127,043
Net (loss) income attributable to VisionChina Media Inc. shareholders	(416,409)	(4,069,008) 1,583,333	9,393,358 6,625,262	46,809,950	26,603,003



Deemed dividend on convertible redeemable preferred shares

Net (loss) income attributable to holders of common shares

(416,409)	(5,652,341)	2,768,096	46,809,950	26,603,003
-----------	-------------	-----------	------------	------------

Net (loss) income per common share:

Basic	(0.02)	(0.26)	0.11	0.67	0.37
Diluted	(0.02)	(0.26)	0.11	0.65	0.37

Shares used in computation of net (loss) income per share:

Basic	22,000,000	22,000,000	24,709,522	70,064,663	71,686,900
Diluted	22,000,000	22,000,000	25,771,702	72,404,916	72,676,438

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

Cost of revenues		37,576	34,431	39,847	63,477
Selling and marketing expenses		5,374	135,722	1,163,623	3,698,329
General and administrative expenses		35,802	51,209	263,587	570,305

Note: Noncontrolling interest for the period from April 8, 2005 to December 31, 2005, the years ended December 31, 2006, 2007 and 2008 has been reclassified in accordance with Financial Accounting Standard Board, or FASB, Accounting Standards Codification, or ASC, 810 Consolidation .

**Table of Contents**

	2005	2006	As of December 31,		2009
			2007	2008	
			(US\$, except number of shares)		
<b>Condensed Consolidated Balance Sheet Data:</b>					
Cash and cash equivalents	2,599,078	5,215,693	131,139,659	163,248,286	68,834,087
Total assets	6,040,923	17,043,776	175,300,276	293,639,567	388,915,736
Total current liabilities	247,117	1,241,783	10,618,779	42,304,706	102,935,518
Series A convertible redeemable preferred shares		15,220,327			
Common shares	2,200	2,200	6,839	7,182	7,214
Total VisionChina Media Inc. shareholders equity	5,793,806	581,666	164,028,819	245,073,214	272,981,356
Number of common shares issued and outstanding	22,000,000	22,000,000	68,386,838	71,819,442	72,140,684

Note: Noncontrolling interest as of December 31, 2005, 2006, 2007 and 2008 has been reclassified in accordance with FASB ASC 810.

	2007	As of December 31,	
		2008	2009
<b>Selected Operating Data:</b>			
Number of digital television displays in our mobile digital television advertising network:			
Exclusive agency cities	31,476	57,250	79,571
Direct investment cities	9,726	4,406	2,594
Total	41,202	61,656	82,165
Number of digital displays in our supplemental subway advertising platform			
	208	4,608	7,134
<b>For the Year Ended December 31,</b>			
	<b>2007</b>	<b>2008</b>	<b>2009</b>
Total hours of broadcasting <sup>(1)</sup>	77,925	119,170	138,164
Average revenue per hour <sup>(1)(2)</sup> (US\$)	341	843	825
Average advertising minutes sold per hour	7.04	7.72	6.47

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

**Exchange Rate Information**

A number of RMB-denominated figures used in this annual report are accompanied with U.S. dollar translations. These translations are based on the noon buying rate in The City of New York for cable transfers of RMB as certified for customs purposes by the Federal Reserve Bank of New York on December 31, 2009, which was RMB6.8259 to US\$1.00. We make no representation that any RMB or U.S. dollar amounts could have been, or could be, converted into U.S. dollars or RMB, as the case may be, at any particular rate, the rates stated below, or at all. The PRC government imposes control over its foreign currency reserves in part through direct regulation of the conversion of RMB into foreign currencies and through restrictions on foreign trade.

The following table sets forth information concerning exchange rates between the RMB and the U.S. dollar for the periods indicated. These rates are provided solely for your convenience and are not necessarily the exchange rates that we used in this annual report or will use in the preparation of our periodic reports or any other information to be provided to you. The exchange rate of Renminbi per US dollar as set forth in the H.10 statistical release of the Federal Reserve Board was RMB6.8267 to US\$1.00 as of June 18, 2010.

**Table of Contents**

Period	Exchange Rate (Renminbi per US Dollar) <sup>(1)</sup>			
	Period End	Average <sup>(2)</sup> (RMB per US\$1.00)	Low	High
2006	7.8041	7.9579	8.0702	7.8041
2007	7.2946	7.6072	7.8127	7.2946
2008	6.8225	6.9477	7.2946	6.7800
2009	6.8259	6.8307	6.8470	6.8176
2010	6.6000	6.7642	6.8330	6.6000
July	6.7807	6.7762	6.7807	6.7709
August	6.8069	6.7873	6.8069	6.7680
September	6.6905	6.7396	6.8102	6.6869
October	6.6705	6.6675	6.6912	6.6397
November	6.6670	6.6537	6.6906	6.6233
December	6.6000	6.6497	6.6745	6.6000
2011				
January (up to January 14)	6.5876	6.6085	6.6364	6.5850

(1) The source of the exchange rate is: (i) with respect to any period ending on or prior to December 31, 2008, the Federal Reserve Bank of New York, and (ii) with respect to any period ending on or after January 1, 2009, the H.10 statistical release of the Federal Reserve Board.

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

relevant period.

B. Capitalization and Indebtedness

Not Applicable.

C. Reasons for the Offer and Use of Proceeds

Not Applicable.

D. Risk Factors

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

**Risks Related to Our Company and Our Industry**

***The recent global economic and financial market crisis has had and may continue to have a negative effect on the market price of our ADSs, and could have a material adverse effect on our business, financial condition, results of operations and cash flow.***

The recent global economic and financial market crisis has caused, among other things, a general tightening in the credit markets, lower levels of liquidity, increases in the rates of default and bankruptcy, lower consumer and business spending, and lower consumer net worth, in the United States, China and other parts of the world. This global economic and financial market crisis has had, and may continue to have, a negative effect on the market price of our ADSs, the volatility of which has increased as a result of the disruptions in the financial markets. It may also impair our ability to borrow funds or enter into other financial arrangements if and when additional funds become necessary for our operations. We believe many of our advertisers have also been affected by the recent economic turmoil. Current or potential advertisers may no longer be in business, may be unable to fund advertising purchases or determine to reduce purchases, all of which would lead to reduced demand for our advertising services, reduced gross margins, and increased delays of payments of accounts receivable or defaults of payments. We are also limited in our ability to reduce costs to offset the results of a prolonged or severe economic downturn given our fixed media costs associated with our operations. Therefore, if the current economic downturn continues, our business, financial condition, results of operations and cash flow could be materially and adversely affected. In addition, the timing and nature of the continued recovery in the credit and financial markets remains uncertain, and there can be no assurance that market conditions will continue to improve in the near future or that our results will not continue to be materially and adversely affected.

**Table of Contents*****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 principal exclusive mobile digital television advertising agency arrangements on buses in Beijing and Shenzhen in October and December 2006, respectively. We secured our principal exclusive mobile digital television advertising agency arrangements on subways in Shenzhen and Beijing in May and August 2007, 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 incurred net losses in the past and may incur losses in the future.***

For the period from April 8, 2005, the date we commenced operations, to December 31, 2005, and in 2006, we incurred a net loss of US\$0.4 million and US\$5.7 million, respectively. We pay media costs to our local operating partners for operating our advertising business on buses and subways. These fees constitute a significant portion of our cost of revenues and accounted for approximately 37.2%, 29.7% and 41.4% of our net revenues in the years ended December 31, 2007, 2008 and 2009, respectively. Most of the media costs are fixed each year with annual increases pursuant to the terms of the contracts. However, our revenues may fluctuate significantly from period to period for various reasons. If our revenues decrease in a given period, we may be unable to reduce our cost of revenues as a significant portion of our cost of revenues is fixed, which could materially and adversely affect our results of operations and result in a net loss in the period.

***If we are required to impair our goodwill or other amortizable intangible assets, our financial condition and results of operations would be adversely affected.***

As of December 31, 2009, we had goodwill and amortizable intangible assets of US\$120.5 million, arising from our acquisitions of six advertising agency businesses in 2008. In January 2010, we completed our acquisition of Digital Media Group Company Limited, or Digital Media Group, for a total consideration of US\$160 million, payable in cash and/or our common shares to eligible former shareholders of the Digital Media Group in three installments over the next two years. We expect to record additional goodwill and intangible assets in connection with our acquisitions of those six advertising agency businesses and our acquisition of Digital Media Group. We are required under U.S. GAAP to review our amortizable intangible assets and goodwill for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Goodwill is required to be tested for impairment annually or more frequently if facts and circumstances warrant a review. Factors that may be considered a change in circumstances indicating that the carrying value of goodwill and our amortizable intangible assets may not be recoverable, such as a decline of growth in our industry, may have an adverse impact on the operating result of the acquired businesses. We evaluate the amounts of the goodwill and amortizable intangible assets for impairment based on the forecasts of financial performances of the acquired businesses which in turn are based on various assumptions. See Item 5. Operating and Financial Review and Prospects Operating Results Critical Accounting Policies Goodwill and Intangible Assets. As we have a limited operating history upon which we can use to forecast the financial performances of these acquired businesses, any adverse change in the assumptions underlying the forecasts may result in impairment charges to be recorded in our statement of operations, which will cause a decrease in the net income attributable to our shareholders, and cause the carrying value of our goodwill and amortizable intangible assets to be reduced to the recoverable amounts.

**Table of Contents**

***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

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 digital television operating partners because they operate mobile digital television networks, and SARFT and its local branches have the authority to order any mobile digital television operators who have violated the March 2006 Notice or other applicable laws to stop operating their mobile digital television networks. In addition, SARFT issued a notice regarding strengthening the administration of public audio/visual media on public transportation vehicles and in public buildings on December 6, 2007.

SARFT or its local branches may 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.

***Our local operating partners may be ordered to stop their operation of mobile digital television operations for incomplete application for SARFT approval, which may materially and adversely affect our advertising business in the affected cities.***

According to the notices issued by SARFT in March 2006 and December 2007, companies that broadcast programs on audio/visual media located on public transportation vehicles and in public buildings using television, internet or other broadcasting technology must apply for SARFT approval by the end of April 2006, and companies failing to complete the procedure may be ordered to cease network operation.

To date, our local mobile digital television operating partners in Shenzhen, Beijing, Zhengzhou, Guangzhou, Ningbo and Shenyang (i.e., Shenzhen Mobile Television Co., Ltd., Beijing Beiguang Media Mobile Television Co., Ltd., Henan Cable China Mobile Television Company Limited, Guangzhou Pearl River Mobile Multimedia Television Co., Ltd., Ningbo China Mobile Television Development Co., Ltd. and Liaoning Beidou Xingkong Digital Television Media Co., Ltd.) have obtained SARFT approvals for operating mobile digital television networks in these cities. Our local mobile digital television operating partners in Changzhou and Dalian (i.e., Changzhou Television Station and Dalian Television Station) submitted their applications to SARFT after April 30, 2006. Our local mobile digital television operating partners in cities other than those mentioned above 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. In aggregate, approximately 30% of our revenues in 2009 were attributable to the cities where our local operating partners have not obtained the SARFT approvals.

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 and December 2007 Notices. Moreover, the mobile digital television industry is encouraged under the Eleventh Five-Year Plan (2006-2010) of the PRC government. Furthermore, our local mobile digital 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. Therefore, our PRC legal counsel 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 operations.

However, we cannot assure you 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 for incomplete application of the SARFT approval, 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 advertising 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.



**Table of Contents**

As an operator of an advertising medium, we are obligated under PRC laws, rules and regulations to monitor the advertising content aired on our network or supplemental subway advertising platform for compliance with applicable laws. Although the advertisements shown on our network generally have previously been broadcast over public television networks and have been subjected to internal review and verification by these broadcasters, we are required to 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 advertisers' 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 supplemental subway 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 has advised us that local SAIC branches in eight of the cities where we operate our advertising business, namely 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 Harbin and Zhengzhou have completed the required registrations. Our direct investment entities in Dalian and Suzhou and our local operating 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.

***Our local digital mobile television operating partner's incomplete application, refusal to register and non-compliance with PRC registration may cause our operations, financial condition and results of operations be materially and adversely affected.***

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 as 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. Currently, none of our local operating partners or direct investment entities has renewed or completed the outdoor advertising registrations, and until now, none of our local operating partners or direct investment entities is required by local SAIC to apply for the registration or be fined or penalized by failing with completion of outdoor advertisement registration. 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.

**Table of Contents**

***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 we sold 6.47 advertising minutes per broadcasting hour in the year ended December 31, 2009. However, there is some uncertainty because to date, there have been no SARFT actions or statements to the effect of determining that the regulation referenced above is applicable to the mobile digital televisions industry or promulgation of new rules that are similar to this regulation to regulate or restrict the advertising time digital television networks. 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 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. As of December 31, 2009, we provided advertising services through our network and supplemental subway advertising platform with approximately 89,299 digital displays in 19 cities in China. We have entered into exclusive advertising agency arrangements in 16 cities and direct investment arrangements in 11 cities in China. We cannot assure you that we can maintain these relationships on satisfactory terms, or at all. Our local operating partners may unilaterally terminate our agreements 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 including Chengdu Television Station, Shenzhen Media Group, Jilin Television Station, Haerbin Television Station, Dalian Television Station, Henan Cable Television Network Group Co., Ltd., Hubei Broadcast and Television General Station, Wuxi Broadcast and Television Group, Suzhou Broadcast and Television General Station, Changzhou Television Station,

and Ningbo Broadcast and Television Group, 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.

**Table of Contents*****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 supplemental subway advertising platform in Guangzhou and Shenzhen are secured by our agreements with the subway companies in these two cities, respectively. However, we cannot assure you that we and our local operating partners can maintain these relationships with the local bus companies or subway companies on satisfactory terms, or at all, or that the local bus companies or subway companies will not terminate these relationships before their expiration. If we or our local operating partners fail to maintain these relationships, advertisers may find advertising on our network unattractive and may not purchase advertising time from us, which would cause our revenues to decline and our business and prospects to deteriorate.

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

Our local operating partners have adopted three different digital television technology standards in operating their networks. In addition, our direct investment entities have installed digital television receivers based on the technology standards our local operating partners have adopted. The National Standard of Frame Structure and Channel Code and Modulation of Digital Television Ground Broadcasting Transmission System, or the National Standard, was approved by the Standardization Administration of the PRC on August 18, 2006, and became effective on August 1, 2007. On March 27, 2006, SARFT promulgated the Notice Concerning Experimental Mobile Digital Television, or the March 2006 Notice, which required all of our local operating partners must adopt the National Standard for their mobile digital television operations. In addition, the SARFT has issued a notice to require some of our local operating partners and direct investment entities to complete the adoption of the National Standard by June 30, 2010. As of April 1, 2010, the mobile digital television network of our direct investment entities and the digital television broadcasting infrastructure of our local operating partners in 11 cities (Chengdu China Digital Mobile Television Co., Ltd., Wuxi Guangtong Digital Mobile Television Co., Ltd., Ningbo China Mobile Television Development Co., Ltd., Dalian Mobile Digital Television Co., Ltd., Hubei China Mobile Television Co., Ltd., Liaoning Beidou Xingkong Digital Television Media Co., Ltd., Tianjin North Mobile Multimedia Television Co., Ltd., Xiamen Radio and Television Digital Media Co., Ltd., Suzhou China Mobile Television Co., Ltd., Changzhou China Mobile Television Company Limited, and Haerbin China Mobile Television Company Limited) have been converted to the National Standard, but those in another 10 cities (Beijing Beiguang Media Mobile Television Co., Ltd., Beijing Beiguang Metro Media Co., Ltd., Shenzhen Mobile Television Co., Ltd., Guangzhou Pearl River Mobile Multimedia Television Co., Ltd., Nanjing Guangdian Mobile Television Development Co., Ltd., Shanghai Metro Television Company Limited, Changsha Guangdian Digital Mobile Television Co., Ltd., Shanxi Dazhong Mobile Television Co., Ltd., Hangzhou Guangdian Buses Mobile Multimedia Co., Ltd., Henan Cable China Mobile Television Company Limited and Jilin Mobile Television Co., Ltd.) have not yet completed the conversion and do not meet the requirements of the National Standard. Our direct investment entities (Henan Cable China Mobile Television Company Limited and Jilin Mobile Television Co., Ltd.) and our local operating partners (Beijing Beiguang Media Mobile Television Co., Ltd., Beijing Beiguang Metro Media Co., Ltd., Shenzhen Mobile Television Co., Ltd., Guangzhou Pearl River Mobile Multimedia Television Co., Ltd., Shanghai Metro Television Company Limited, Nanjing Guangdian Mobile Television Development Co., Ltd., Changsha Guangdian Digital Mobile Television Co., Ltd., Shanxi Dazhong Mobile Television Co., Ltd., and Hangzhou Guangdian Buses Mobile Multimedia Co., Ltd.) will be required to spend significant capital and other resources, including on new equipment, to convert their digital television broadcasting infrastructure to the National Standard. Under some of our exclusive advertising agency agreements, we are responsible for a portion of such expenditures. We are unable to accurately estimate the amount and timing of capital expenditures required for our local operating partners and us to meet the requirements of the National Standard.

Furthermore, the installation of new technology and equipment could cause disruptions to our programming, which in turn may adversely affect our reputation and business. If our local operating partners and direct investment entities do not complete the adoption of the National Standard in a timely manner or at all, or if such adoption requires substantial capital expenditures or other resources, our business, financial condition and results of operations would be materially and adversely affected.

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

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

**Table of Contents**

We intend to obtain the required approvals for our non-advertising content for the programming in these operations. However, the relevant government authority in China has not promulgated any implementation rules on the procedure for applying for the requisite approvals. We cannot assure you that we will obtain such approvals as required by the SARFT Circular in a timely manner or at all. If we do not obtain the requisite approvals, we may be required to eliminate non-advertising content from programming transmitted through closed circuit networks, and as a result, advertisers may find our network less attractive, which could have an adverse affect on our business and prospects.

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

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

a general decline in economic conditions;

a decline in economic conditions in the particular cities where we conduct business;

a decision to shift advertising expenditures to other available advertising media; and

a 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 have a material and adverse effect on our financial condition and results of operations.

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

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

***The process of developing a relationship with a local television station or its mobile digital television operating company, and then installing digital displays on 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.***

**Table of Contents**

Our success depends largely on our ability to establish relationships with local television stations and mass transportation companies. Before expanding into a new city, we identify cities that have been or are planning to launch digital mobile television operations, collect data and analyze the development status, and evaluate the commercial potential and our estimated revenue. In some cases, we actively approach the television stations or mobile television operators based on the market research to pursue cooperation opportunities, while in other cases we are contacted by those operators who have interest in cooperating with us. 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 revenue 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. 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 supplemental subway 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.

**Table of Contents**

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

As is customary in the advertising industry in China, we generally do not have exclusive or long-term agreements with our advertising clients. A majority of our agreements with our advertising clients have a term of less than a year. As a result, we must rely on high-quality services, industry reputation, our network size and coverage and favorable pricing to attract and retain advertising clients. There is no assurance, however, that we will be able to maintain our relationships with current and/or future clients. In particular, we derive a substantial percentage of our revenues from a small number of advertising clients. For example, our top ten advertising clients in the aggregate accounted for 39.7% of our total revenues for the year ended December 31, 2009. These and our other advertising clients may elect to terminate their relationships with us if they are not satisfied with our services. We have lost client accounts in the past and may lose client accounts in the future. If a substantial number of our advertising clients choose not to continue to purchase advertising time from us, we would be unable to generate sufficient revenues and cash flows to operate our business, and our results of operations and financial condition would be materially and adversely affected.

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

We compete with other mobile digital television advertising companies and other new media advertising companies in China. We compete for advertising clients primarily on the basis of 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 Holding Limited, AirMedia Group Inc., Towona Mobile Digital Co., Ltd. and Bus Online Media Co., Ltd. We also compete for overall advertising spending with other advertising media, such as television, mass transportation posters, billboards, newspapers, radio, magazines and the Internet. Some of our competitors operate digital television advertising networks installed on mass transportation systems primarily playing prerecorded content saved on compact flash cards or DVDs.

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

Further, we may also face competition from new entrants into the mobile digital television advertising sector. As is customary in the advertising industry, we generally do not have exclusive arrangements with our advertising clients and we do not have exclusive arrangements with the local operating partners in a number of cities in which we operate. Therefore, we cannot assure you that we will succeed in gaining a greater market share or maintain our market share. In addition, since December 10, 2005, wholly foreign-owned advertising companies have been allowed to operate in China, which may expose us to increased competition from international advertising media companies attracted to opportunities in China.

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

**Table of Contents**

***Several 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 cities.***

A substantial majority of our revenues are currently generated from our operations in three major cities in China: Beijing, Guangzhou and Shenzhen. These three cities in the aggregate accounted for 63.1% and 62.9% of our total advertising service revenues in 2008 and 2009, respectively. In addition, following the completion of our acquisition of Digital Media Group, we expect Shanghai to also account for a significant portion of our total advertising service revenues. We expect to generate a substantial portion of our revenues from these four cities in the future. If any of these cities experiences an event negatively affecting its mobile digital television advertising industry, such as a serious economic downturn, a decline in the use of mass transportation systems, changes in government policy, a natural disaster or changes in advertising preferences, our mobile digital television network, our supplemental subway advertising platform and our ability to generate adequate cash flow would be materially and adversely affected. In addition, if we fail to maintain our relationships with the local operating partners in these cities (i.e., Beijing Beiguang Media Mobile Television Co., Ltd, Beijing Beiguang Metro Media Co., Ltd., Shenzhen Mobile Television Co., Ltd., Guangzhou Pearl River Mobile Multimedia Television Co., Ltd., Guangzhou Metro Television Co., Ltd., and Shanghai Metro Television Company Limited), 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;

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.

**Table of Contents**

***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 broader network coverage, we must continue to expand our network by installing more digital television displays on buses and other mass transportation systems and 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:

our ability to attract more clients, increase advertising sales and improve our sales support activities;

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 maintain our existing relationships with our local operating partners and to develop new relationships with local television stations or local mobile digital television companies;

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 co-founder, chairman and chief executive officer and our largest shareholder. We rely on his experience in our business operations, and in particular, his business vision, management skills and working relationships with our employees, our other major shareholders, many of our clients and our local operating partners. We have granted share options and/or restricted shares to executive officers to align the interest of such officers with ours. However, 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. Furthermore, as we continue to expand our operations and develop new products, we will need to continue to attract and retain experienced management. 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. In addition, if any of our executive officers joins a competitor or forms a competing company, our marketing and sales efforts could be adversely affected and we may lose some of our customers. Although each of our executive officers has entered into an employment agreement with us that contains confidentiality and non-competition provisions, disputes may arise between our executive officers and us and we cannot assure you, in light of uncertainties associated with the PRC legal system, that any of these provisions could be enforced in accordance with their terms.

**Table of Contents**

***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 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. Our senior executives may have to divert their attention to recruiting replacements for key personnel.

In particular, we depend on our sales and marketing team to sell advertising time. We market our advertising services directly to advertisers, as well as to advertising agencies. As of December 31, 2009, we had 368 dedicated sales and marketing personnel and 7 consultants to support our sales and marketing efforts. We depend on our sales staff to market our services to existing and potential clients and to cover a large number of clients in a wide variety of industries. We need to further increase the size of our sales and marketing staff as our business continues to grow. If we are unable to hire, retain, integrate or motivate our current or new marketing personnel, our sales and marketing efforts may be materially impaired and our business, financial condition and results of operations could be materially and adversely affected.

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

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

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

The market for mobile digital television advertising requires us to continuously identify new advertising trends and the technology needs of advertisers and public viewers, which may require us to develop new features and enhancements for our network. The majority of our displays use LCD screens. We currently air programs and advertisements on our network through the television broadcasting network of our local operating partners or their affiliated television stations. In the future, subject to relevant PRC laws and regulations, we may use other technologies available in the market. We may be required to incur development and acquisition costs in order to keep pace with new technology needs but we may not have the financial resources necessary to fund and implement future technological innovations or to replace obsolete technology. Furthermore, we may fail to respond to these changing technology needs in a timely fashion. 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.***

**Table of Contents**

We may need additional cash resources due to changed business conditions, acquisitions 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 additional equity securities 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;

acquire necessary technologies or businesses;

expand our operations, including the reach of our network;

hire, train and retain employees;

market our programs, services and products; or

respond to competitive pressures or unanticipated capital requirements.

***Acquisition of other companies or assets of other companies is a part of our growth strategy, and these acquisitions may expose us to significant business and financial 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 effectively any future acquisitions on terms that are favorable to us may be limited by a number of factors such as the number of attractive acquisition targets, internal demand on our resources and, to the extent necessary, our ability to obtain financing on satisfactory terms, if at all, for larger acquisitions.

**Table of Contents**

Moreover, if an acquisition candidate is identified, we may fail to enter into an acquisition or purchase agreement for such acquisition candidate on commercially reasonable terms, or at all. The negotiation and completion of potential acquisitions, whether or not ultimately consummated, could also require significant diversion of our time and resources and may potentially disrupt our existing business. Furthermore, we cannot assure you that we will be able to successfully integrate our acquisitions into our operations or that the expected synergies from future acquisitions will actually materialize. For example, in connection with the integration of our acquisition of Digital Media Group, we may desire to replace the current shareholders of Beijing Eastlong Advertising Co., Ltd., or Beijing Eastlong Advertising, the consolidated affiliated entity of Digital Media Group, with employees of ours. However, the replacement of the current shareholders of Beijing Eastlong Advertising will require us to obtain the consent of the counterparty to exclusive agency arrangement for the Shanghai subway, and there can be no assurance that we would be able to obtain such consent in a timely manner or at all. In addition, acquisitions could result in the incurrence of additional indebtedness, costs and contingent liabilities. For example, in connection with several acquisitions of advertising agency businesses completed by us in China in 2008, we are required to pay additional consideration if the acquired businesses meet specified performance targets in future years. See Item 5. Operating and Financial Review and Prospects B. Liquidity and Capital Resources Investing Activities on page 70 for more details regarding the calculation of such additional consideration based on performance targets. These acquisitions may result in significant future payments by us, although the long-term future performance of these acquired businesses is not certain. In addition, among the total consideration of US\$160 million for our acquisition of Digital Media Group, US\$60 million will be paid in cash or shares on the first and second anniversaries of the acquisition. See Item 5. Operating and Financial Review and Prospects B. Liquidity and Capital Resources Investing Activities on page 70 for more details. 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

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

Any of the above risks could significantly disrupt our ability to manage our business and 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 materially. Further, unauthorized use of our brand, trade names or trademarks could cause brand confusion among advertisers and harm our reputation. If our brand recognition decreases, we may lose advertisers and fail in our expansion strategies, and our business, results of operations, financial condition and prospects could be materially and adversely affected.



***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.

**Table of Contents*****We have limited insurance coverage for our operations 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 on our financial statements, relevant market data and the projected composition of our income and valuation of our assets, including goodwill, we do not believe that we were a passive foreign investment company for 2009, and we do not expect to be a PFIC in 2010 or to become one in the foreseeable 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.

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

- the excess distribution or gain will be allocated ratably over the U.S. investor's holding period for the ADSs or common shares,
- the amount allocated to the current taxable year, and any taxable year prior to the first taxable year in which we were a PFIC, will be treated as ordinary income, and
- the amount allocated to each other year will be subject to tax at the highest tax rate in effect for that year and the interest charge generally applicable to underpayments of tax will be imposed on the resulting tax attributable to each such year.

In addition, non-corporate U.S. investors will not be eligible for reduced rates of taxation on any dividends received from us in taxable years beginning prior to January 1, 2013, if we are a PFIC in the taxable year in which such dividends are paid or in the preceding taxable year.

The determination of whether or not we are a PFIC is made on an annual basis and depends on the composition of our income and assets from time to time. Specifically, we will be classified as a PFIC for U.S. tax purposes if either: (i) 75% or more of our gross income in a taxable year is passive income, or (ii) the average percentage of our assets (which include cash) by (determined on a quarterly average) 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. We cannot assure you that we will not be a PFIC for 2010 or any future taxable year. See Item 10. Additional Information E. Taxation Material United States Federal Income Tax Consequences.

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

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

- advertising claims made with respect to our clients' products or services are false, deceptive or misleading;

our clients' products are defective or injurious and may be harmful to others; marketing, communications or advertising materials created for our clients infringe on the proprietary rights of third parties; or

our relationships with our local operating partners violate or interfere with the contractual relationships or rights of third parties.

## **Table of Contents**

For example, in February 2008, Xiamen Towona Culture Media Co., Ltd., or Xiamen Towona, filed a claim against Shanxi Mobile TV Co., Ltd., or Shanxi Mobile TV, in the Taiyuan Intermediate People's Court and VisionChina Media Group Limited, or VisionChina Media Group, was joined as a third party defendant. In the complaint, Xiamen Towona alleged that Shanxi Mobile TV terminated the exclusive agency agreement in Taiyuan with Xiamen Towona without justification. Xiamen Towona requested specific performance of the agreement and monetary damages in the amount of RMB8.0 million. The trial court issued its judgment in October 26, 2008 rejecting all of the plaintiffs' claims. The plaintiffs did not appeal the case. In addition, in July 2008, Xiamen Towona and Guangzhou Towona Mobile Digital Advertisement Media Co., Ltd., or Guangzhou Towona, jointly filed a claim against Guangzhou Third Bus Company and VisionChina Media Group in the Yuexiu District People's Court in Guangzhou. In the complaint, Xiamen Towona and Guangzhou Towona alleged that Guangzhou Third Bus Company and VisionChina Media Group removed digital television displays installed by Xiamen Towona and Guangzhou Towona and replaced them with displays bearing our logo. Guangzhou Towona and Xiamen Towona requested equitable remedies from the court. The trial court issued its judgment on December 19, 2008 rejecting all of the plaintiffs' claims. The plaintiffs appealed the case to Guangzhou Intermediary People's Court, which issued a judgment on December 17, 2009, upholding the trial court's judgment and rejecting all of the plaintiff's claims.

There can be no assurance that we will be successful in defending against any claims in the future. The damages, costs, expenses and attorneys' fees arising from any future claims against us could have an adverse effect on our business, results of operations, financial condition and prospects. In addition, our reputation may be negatively affected by these or any future allegations.

### **Risks Related to Our Corporate Structure**

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

The PRC government requires any foreign entities that invest in the advertising services industry to have at least two years of direct operations in the advertising industry outside of China. We have not directly operated any advertising business outside of China and therefore, we currently do not qualify under PRC regulations to 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 (Shenzhen) Co., Ltd., or CDTC, which is a wholly-owned foreign enterprise established by us on March 9, 2006 to facilitate the legal structure of our group companies to comply with the PRC rules and regulations, 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 entities in China, which hold the requisite licenses to provide advertising services in China. One of our consolidated affiliated entities, VisionChina Media Group, is currently owned by Limin Li and Yanqing Liang. We do not have any equity interest in VisionChina Media Group but we receive the economic benefits of it through various contractual arrangements. See Item 7. Major Shareholders and Related Party Transactions B. Related Party Transactions. In January 2010, we completed our acquisition of Digital Media Group, which operated and continues to operate, its advertising business through its consolidated affiliated entity in China, Beijing Eastlong Advertising. Beijing Eastlong Advertising is currently owned by Men Qijun and Wang Haifeng. Digital Media Group does not have any equity interest in Beijing Eastlong Advertising, but receives the economic benefits and bear economic risks of it through various contractual arrangements. Our consolidated affiliated entities and their subsidiaries directly operate our advertising network, enter into direct investment and exclusive and non-exclusive advertising agency agreements, and sell advertising time to our clients. We have been and expect to continue to be dependent on our consolidated affiliated entities and their subsidiaries to operate our advertising business.

There are substantial uncertainties regarding the interpretation and application of current and future PRC laws, rules and regulations, including but not limited to the laws, rules and regulations governing the validity and enforcement of our contractual arrangements with our consolidated affiliated entities. Although we have been advised by our PRC counsel that the structure for operating our business in China (including our corporate structure and contractual arrangements with our consolidated affiliated entities and their shareholders) complies with all applicable

PRC laws, rules and regulations, and does not violate, breach, contravene or otherwise conflict with any applicable PRC laws, rules or regulations, we cannot assure you that the PRC regulatory authorities will not take a view that is contrary to the above opinion of our PRC counsel, and determine that our corporate structure and contractual arrangements violate PRC laws, rules or regulations. We have been further advised by our PRC counsel that if the PRC government determines that the agreements that establish the structure for operating our PRC advertising businesses do not comply with applicable restrictions on foreign investment in the advertising industry or the mobile digital televisions industry, we may be subject to severe penalties including, among other things, being prohibited from continuing our operations in the PRC.

**Table of Contents**

If we, our consolidated affiliated entities or any of their current or future subsidiaries, our direct investment entities, or our local operating partners are found to be in violation of any existing or future PRC laws or regulations, or fail to obtain or maintain any of the 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 such entities;

discontinuing or restricting the conduct of any transactions among our consolidated affiliated entities, our PRC subsidiaries and affiliated entities;

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

shutting down the network of our consolidated affiliated entities;

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

or

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 our consolidated affiliated entities in China, and their 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 VisionChina Media Group, one of our consolidated affiliated entities in China, and its shareholders to operate our advertising business. In January 2010, we completed our acquisition of Digital Media Group, which operated, and will continue to operate, its advertising business through contractual arrangements with Beijing Eastlong Advertising and its shareholders.

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 the operations of, our consolidated affiliated entities and their subsidiaries. If we had direct ownership of our consolidated affiliated entities and their subsidiaries, we would be able to exercise our rights as a shareholder to (i) effect changes in the board of directors of those entities, which in turn could effect changes, subject to any applicable fiduciary obligations, at the management level, and (ii) derive economic benefits from the operations of our consolidated affiliated entities and their subsidiaries by causing our consolidated affiliated entities and their subsidiaries to declare and pay dividends. However, under the current contractual arrangements, as a legal matter, if our consolidated affiliated entities and their subsidiaries or any of their respective shareholders fails to perform their, his or her respective obligations under these contractual arrangements, we may have to incur substantial costs and resources to enforce such arrangements, and 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 VisionChina Media Group were to refuse to transfer their equity interests in VisionChina Media Group 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 our consolidated affiliated entities and their subsidiaries and their 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) our consolidated affiliated entities or their subsidiaries terminate these contractual arrangements or (iii) our consolidated affiliated entities or their subsidiaries 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 our consolidated affiliated entities or their

subsidiaries, and the value of your ADSs would substantially decrease. Further, if we fail to renew these contractual arrangements upon their expiration, we would not be able to continue our business operations unless the then current PRC law allows us to directly operate advertising businesses in China.

In addition, through an Equity Pledge Agreement, our consolidated entities encumber all or part of their assets with liens. See Item 7. Major Shareholders and Related Party Transactions B. Related Party Transactions Agreements that Provide Us Effective Control over VisionChina Media Group and its Subsidiaries. If our consolidated affiliated entities or all or part of their assets become subject to liens or rights of third-party creditors, we may 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 one of our consolidated affiliated entities undergoes a voluntary or involuntary liquidation proceeding, its shareholders or unrelated third-party creditors may claim rights to some or all of the assets of that consolidated affiliated entity, thereby hindering our ability to operate our business or derive economic benefits from that consolidated affiliated entity and its subsidiaries, which could materially and adversely affect our business, our ability to generate revenues and the market price of your ADSs.

The contractual arrangements with our consolidated affiliated entities are governed by PRC law and provide for the resolution of disputes 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 we may be precluded from operating our business, which would have a material adverse effect on our financial condition and results of operations.

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

Chinese laws and regulations prohibit or restrict foreign ownership of media content and advertising business. To comply with these foreign ownership restrictions, we invest in ventures with local television stations and provide advertising services on our out-of-home digital television networks in the PRC through VisionChina Media Group, a PRC legal entity, which was established by our co-founders. The paid-in capital of VisionChina Media Group was funded by us or CDTC through a loan extended to the co-founders. CDTC has entered into certain exclusive agreements with VisionChina Media Group, which obligate us to absorb a majority of the risk of loss from VisionChina Media Group's activities and entitle us to receive a majority of its residual returns. In addition, we, through CDTC, has entered into certain agreements with the two individuals, including a loan agreement for the paid-in capital of VisionChina Media Group described above, an option agreement to acquire the shareholding in VisionChina Media Group when permitted by the PRC laws, and a share pledge agreement for the shares in VisionChina Media Group held by the co-founders. As provided by these agreements, all raised disputes are subject to PRC court proceedings. The major difference between binding arbitration and court proceedings in the PRC is that PRC arbitration judgments are binding, enforceable and may not be appealed, whereas the PRC court judgments are subject to appeal to the People's Court of Appeal. See Item 7. Major Shareholders and Related Party Transactions B. Related Party Transactions for a detailed description of these contractual arrangements.

Based on these contractual arrangements, we believe that VisionChina Media Group should be considered as a variable interest entity, or VIE, under Financial Accounting Standards Board, Accounting Standards Codification 810, *Consolidation*, because the equity investors in VisionChina Media Group do not have the characteristics of a controlling financial interest and we, through CDTC, are the primary beneficiary of VisionChina Media Group. We and CDTC hold all the variable interests of VisionChina Media Group, and we and CDTC have been determined to be the most closely associated with VisionChina Media Group. Therefore, we are the primary beneficiary of VisionChina Media Group. Accordingly, we consolidate VisionChina Media Group.

These contractual arrangements enable us to exercise effective control over VisionChina Media Group and its subsidiaries and receive substantially all of the economic benefits of VisionChina Media Group and its subsidiaries for a remaining period of 23 years. If VisionChina Media Group fails to comply with its obligation under the foregoing contractual arrangement, such non-performance may have adverse effect on our financial condition and results of operations.





**Table of Contents**

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

The beneficial owners of VisionChina Media Group 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 VisionChina Media Group and our company may arise. The shareholders of Beijing Eastlong Advertising were the founders of Digital Media Group. Their interests may diverge from those of our company, particularly after the completion of our acquisition of Digital Media Group in January 2010.

We cannot assure you that when conflicts of interest arise, any or all of these individuals will act in the best interests of our company or that any conflict of interest will be resolved in our favor. In addition, these individuals may breach or cause the applicable consolidated affiliated entity to breach or refuse to renew the existing contractual arrangements, which will have a material adverse effect on our ability to effectively control that consolidated entity and receive economic benefits from it. If we cannot resolve any conflicts of interest or disputes between us and the shareholders of our consolidated affiliated entities, 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 our consolidated affiliated entities may be subject to scrutiny by the PRC tax authorities and may result in a finding that we owe additional taxes or are ineligible for tax exemption, or both, which could substantially increase our taxes owed and thereby reduce our net income.***

Under applicable PRC laws, rules and regulations, arrangements and transactions among related parties may be subject to audits or challenges by the PRC tax authorities. Neither we nor our PRC counsel are able to 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 our consolidated affiliate entities and their shareholders were not entered into on an arm's length basis. If any of the transactions between one of our wholly owned subsidiaries in China and a consolidated affiliated entity, and its shareholders, including our contractual relationships with that consolidated affiliated entity, 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 that consolidated affiliated entity and assess more taxes on it. In addition, the PRC tax authorities may impose late payment surcharges and other penalties to that consolidated affiliated entity for underpaid taxes. Our net income may be materially and adversely affected if the tax liabilities of a consolidated affiliated entity increase or if it is found to be subject to late payment surcharges or other penalties.

**Table of Contents**

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

We are a holding company, and we rely principally on dividends and other distributions on equity paid by our PRC operating subsidiaries for our cash requirements, including the funds necessary to service any debt we may incur. If one of our PRC operating subsidiaries incurs debt on its own behalf in the future, the instruments governing the debt may restrict its ability to pay dividends or make other distributions to us. In addition, the PRC tax authorities may require us to adjust our taxable income under the contractual arrangements our PRC operating subsidiaries currently have in place with our consolidated affiliated entities in a manner that would materially and adversely affect our PRC operating subsidiaries' ability to pay dividends and other distributions to us. Furthermore, relevant PRC laws, rules and regulations permit payments of dividends by our PRC operating subsidiaries only out of their retained earnings, if any, determined in accordance with PRC accounting standards and regulations. Under PRC laws, rules and regulations, our PRC operating subsidiaries are also required to set aside a portion of their net income each year to fund specific reserve funds. These reserves are not distributable as cash dividends.

In addition, the statutory general reserve fund requires annual appropriations of 10% of after-tax income to be set aside prior to payment of dividends until the cumulative fund reaches 50% of the registered capital. The statutory general reserve fund is used to make up for losses and not allowed to be distributed as cash dividends. To the extent it has not complied with these requirements, a company shall be ordered to the statutory reserve fund and may be fined a maximum to RMB 200,000 penalty and shareholders must return the distributed profits to company. As a result of these PRC laws, rules and regulations, our PRC operating subsidiaries are restricted in their ability to transfer a portion of their net assets to us whether in the form of dividends, loans or advances. Any limitation on the ability of our PRC operating subsidiaries to pay dividends to us could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our businesses, pay dividends or otherwise fund and conduct our business.

Historically, our PRC operating subsidiary, CDTC, did not pay dividends to us from its accumulated profits. Our management believes that it will be able to pay dividends to us from CDTC, but our management does not have any present plan for receiving dividends from our PRC operating subsidiaries including CDTC. Currently we plan to use all our retained profits in our PRC subsidiaries and consolidated affiliates, including CDTC, to reinvest for our future business expansion.

**Risks Related to Doing Business in China**

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

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

the degree of government involvement;

the level of development;

the growth rate;

the control of foreign exchange;

access to financing; and

the allocation of resources.



**Table of Contents**

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

The Chinese economy has been transitioning from a planned economy to a more market-oriented economy. Although the PRC government has in recent years implemented measures emphasizing the utilization of market forces for economic reform, the reduction of state ownership of productive assets and the establishment of sound corporate governance in business enterprises, a substantial portion of the productive assets in China is still owned by the PRC government. The continued control of these assets and other aspects of the national economy by the PRC government could materially and adversely affect our business. The PRC government also exercises significant control over China's economic growth by allocating resources, controlling payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. These actions, as well as future actions and policies of the PRC government, could materially affect our liquidity and access to capital and our ability to operate our business. Substantially all of our assets are located in China and substantially all of our revenues are derived from our operations in China. Accordingly, our business, financial condition, results of operations and prospects are subject, to a significant extent, to economic, political and legal developments in China.

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

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

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

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

**Table of Contents**

***PRC regulation of loans and direct investment by offshore holding companies to PRC entities may delay or prevent us from making loans or additional capital contributions to our PRC operating subsidiary and affiliates.***

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

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

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

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

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

The SAFE issued a public notice in October 2005, or the SAFE notice, requiring PRC residents to register with the local SAFE branch before establishing or controlling any company outside of China for the purpose of capital financing with assets or equities of PRC companies, referred to in the notice as an offshore special purpose company. PRC residents who are shareholders of offshore special purpose companies established before November 1, 2005 were required to register with the local SAFE branch before March 31, 2006. The SAFE notice further requires amendment to the registration in the event of any significant changes with respect to the offshore special purpose company, including an initial public offering by such company. Limin Li and Yanqing Liang, our shareholders who are PRC citizens, have registered with the local SAFE branch as required by the SAFE notice and are required to amend their registration to reflect recent developments of our company and our PRC subsidiary. The failure of our beneficial owners who are PRC citizens to amend their SAFE registrations in a timely fashion pursuant to the SAFE notice or the failure of future beneficial owners of our company who are PRC residents to comply with the registration procedures set forth in the SAFE notice may subject such beneficial owners to fines and legal sanctions and may also limit our ability to contribute additional capital to our PRC subsidiary, limit the ability of our PRC subsidiary to distribute dividends to our company or otherwise materially and adversely affect our business.

On December 25, 2006, the People's Bank of China promulgated the Measure for the Administration of Individual Foreign Exchange, and on January 5, 2007, the SAFE promulgated the implementation rules on those measures. Pursuant to these regulations, PRC citizens who have been granted shares or share options by an overseas listed company according to its employee share option or share incentive plan are required, through a qualified PRC agent which may be the PRC subsidiary of such overseas listed company, to register with the SAFE and complete certain other procedures related to the share option or share incentive plan. Foreign exchange income received from the sale of shares or dividends distributed by the overseas listed company must be remitted into a foreign currency account of such PRC citizen or be exchanged into Renminbi. Our PRC citizen employees who have been granted share options, or PRC optionees, are subject to these regulations. If we or our PRC optionees fail to comply with these regulations, we or our PRC optionees may be subject to fines and legal or administrative sanctions.



**Table of Contents**

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

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

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

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

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

The exchange rates between the Renminbi and the U.S. dollar, Euro and other foreign currencies are affected by, among other things, changes in China's political and economic conditions. On July 21, 2005, the PRC government changed its decade-old policy of pegging the value of the Renminbi to the U.S. dollar. Under the new policy, the Renminbi is permitted to fluctuate within a narrow and managed band against a basket of foreign currencies. This change in policy has resulted in significant appreciation of the Renminbi against the U.S. dollar. There remains significant international pressure on the PRC government to adopt a more flexible currency policy, which could result in a further and more significant appreciation of the Renminbi against the U.S. dollar.

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





**Table of Contents**

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

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

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

Before the EIT Law and its implementation regulations became effective on January 1, 2008, as an enterprise located in the Shenzhen Special Economic Zones in the PRC, CDTC and VisionChina Media Group were allowed to enjoy a preferential tax rate of 15%. In addition, VisionChina Media Group has been recognized as a culture enterprise and thus its headquarters are entitled to full exemption from enterprise income tax from 2005 to 2008. The PRC Ministry of Finance and State Administration of Taxation issued a circular Notice on preferential tax treatment of enterprise income tax in February 2008. The circular stipulates that a newly established culture enterprise could enjoy the corporate income tax exemption treatment which has been approved by the authorities until the end of its tax holiday. VisionChina Media Group obtained the tax exemption approval certificate for year 2008. VisionChina Media Group's sales branches located in various cities in the PRC are subject to enterprise income tax at standard rate. While this preferential tax exemption for VisionChina Media Group ended after 2008, in November 2008, VisionChina Media Group was recognized as new and high technology enterprises strongly supported by the state and is entitled to a preferential tax rate of 15% for 2009 and 2010. One of our operating subsidiaries in Luzhou in Sichuan province was recognized as a local government encouraged company and is entitled to exemption from the enterprise income tax for 2008 and 2009. However, we cannot assure you that our PRC operating subsidiary and consolidated affiliated entities will continue to receive preferential tax treatments in the future. Any further legislative changes to the tax laws and or regulations could in future years by applicable authorities and become subject our PRC operating subsidiary and consolidated affiliated entities to increased income tax rates. Any increase in the enterprise income tax rate applicable to our operating subsidiary and consolidated affiliated entities in the PRC would decrease our net income and materially and adversely affect our financial condition and results of operations.

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

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

**Table of Contents**

In addition, we conduct advertising business through our contractual arrangements with our consolidated affiliated entities, which are currently owned by individuals. We must pay taxes at the individual income tax of 20% on behalf of our employees who hold interests in a consolidated affiliated entity when that consolidated affiliated entity distributes dividends in the future. Furthermore, there may be potential business taxes arising from the contractual arrangements with our consolidated affiliated entities. If we cannot retrieve the undistributed earnings in our consolidated affiliated entities in a tax free manner, we may need to pay additional taxes upon distribution of such undistributed earnings.

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

The EIT Law also provides that enterprises established outside of China whose de facto management bodies are located in China are considered resident enterprises and are generally subject to the uniform 25% enterprise income tax rate as to their worldwide income. Under the implementation regulations for the EIT Law issued by the PRC State Council, de facto management body is defined as a body that has material and overall management and control over the manufacturing and business operations, personnel and human resources, finances and treasury, and acquisition and disposition of properties and other assets of an enterprise. We believe that the de facto management body of the Company is located outside of the PRC, and, accordingly, we believe the risk of being recognized as a PRC resident enterprise under the EIT Law is low. If we are treated as a resident enterprise for PRC tax purposes, we will be subject to PRC tax on our worldwide income at the 25% uniform tax rate, which could have an impact on our effective tax rate and an adverse effect on our net income and results of operations.

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

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

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

Our business could be materially and adversely affected by natural disasters, the outbreak of health epidemics, terrorist attacks or other events in China. For example, in early 2008, parts of China suffered a wave of strong snow storms that severely impacted public transportation systems. In May 2008, Sichuan Province in China suffered a strong earthquake measuring approximately 8.0 on the Richter scale that caused widespread damage and casualties. The May 2008 Sichuan earthquake may have a material adverse effect on the general economic conditions in the areas affected by the earthquake. We cannot assure you that the May 2008 Sichuan earthquake will not have a significant impact on the overall economic conditions in the PRC. In addition, in the last decade, the PRC has suffered health epidemics related to the outbreak of avian influenza and severe acute respiratory syndrome. In July 2008, explosive devices were detonated on several buses in Kunming, Yunnan Province of China, which resulted in disruptions to public transportation systems in Kunming and casualties. Any future natural disasters, health epidemics, terrorist attacks or other events in the PRC could cause a reduction in usage of, or other severe disruptions to, public transportation systems and could have a material adverse effect on our business and results of operations.



**Table of Contents**

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

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

***Risks Related to Our Common Shares and ADSs***

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

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

actual or anticipated fluctuations in our quarterly operating results;

regulatory developments in China affecting us, our industry, our corporate structure or our advertisers;

announcements of competitive developments;

announcements regarding litigation or administrative proceedings involving us;

changes in financial estimates by securities research analysts;

changes in the economic performance or market valuations of companies with comparable businesses;

addition or departure of our executive officers;

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

sales or perceived sales of additional common shares or ADSs.

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

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

Sales of our ADSs or common shares in the public market, or the perception that these sales could occur, could cause the market price of our ADSs to decline. As of December 31, 2009, we had 72,140,684 common shares outstanding, including 64,005,166 common shares represented by 64,005,166 ADSs. Sales of our common shares or ADSs held by our significant shareholders or any other shareholder, or the availability of these securities for future sale, may have a negative effect on the market price of our ADSs.

**Table of Contents**

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

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

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

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

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

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

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

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

the United States.

**Table of Contents**

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

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

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

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

we have failed to provide the depositary with our notice of meeting and related voting materials in a timely fashion;

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

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

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

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

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

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

**Table of Contents**

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

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

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

**Item 4. Information on the Company**

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

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

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

Due to PRC regulatory restrictions on foreign investments in the advertising and mobile digital television industries, we operate our advertising business in China through VisionChina Media Group. While we do not have any equity interests in the operating entities in China, our relationships with VisionChina Media Group and its shareholders are governed by a series of contractual arrangements that allow us to effectively control and derive economic benefits from VisionChina Media Group (for the contractual arrangements See Item 7. Major Shareholders and Related Party Transactions B. Related Party Transactions Agreements that Provide Us Effective Control over VisionChina Media Group and its Subsidiaries on pages [84] and [85]). Accordingly, we treat VisionChina Media Group as a variable interest entity and have consolidated its historical financial results in our financial statements in accordance with U.S. GAAP. All our revenues are derived from VisionChina Media Group for the year ended December 31, 2009.

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

We purchased all of the outstanding equity interests of six British Virgin Islands companies from sellers of them pursuant to share subscription agreements entered into in April, May and August 2008 in connection with our acquisition of certain advertising agency businesses in China. In October 2009, we entered into an agreement and plan of merger (which was amended and restated in November 2009) to acquire Digital Media Group through a merger of a subsidiary with and into Digital Media Group, which was completed in January 2010.

On December 30, 2010, we entered into a Securities Purchase Agreement with Focus Media Holding Limited, or Focus Media, Front Lead Investments Limited, or Front Lead, and JJ Media Investment Holding Limited, or JJ Media. Pursuant to this agreement, Focus Media, Front Lead and JJ Media purchased 15,331,305, 1,022,087 and 1,022,087, respectively, of newly issued common shares of the Company at a price of US\$3.979 per share, equivalent to



US\$3.979 per ADS. After the consummation of the transaction, Front Lead and Focus Media owns approximately 17.2% and 15%, respectively, of our outstanding common shares. In connection with this transaction, we also entered into a Shareholders Agreement and a Registration Rights Agreement with Front Lead and Focus Media dated January 13, 2011.

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

**Table of Contents**

We had capital expenditures of US\$1.6 million for the year ended December 31, 2009, US\$5.0 million for the year ended December 31, 2008 and US\$4.3 million for the year ended December 31, 2007. Our capital expenditures were made primarily to acquire digital television displays and related equipment for our network and to upgrade our accounting software and systems. The digital television displays we acquired have an estimated useful life of 5 years. As of December 31, 2009, the estimated average remaining useful life of our digital television displays is approximately 3 years. We believe our existing digital television displays, with a carrying value of US\$10.6 million as of December 31, 2009, will not become technologically obsolete before the end of their respective useful lives. Therefore we do not expect significant capital expenditure for replacement of digital television displays in 2010 and 2011. Our capital expenditures are primarily funded by the proceeds from issuance of our common shares and Series B convertible redeemable preferred shares for the year ended December 31, 2007, and net cash provided by our operating activities for the years ended December 31, 2008 and 2009. We expect our capital expenditures in 2010 to primarily consist of purchases of digital television displays and related equipment as we continue to expand our mobile digital television advertising network. We believe that we will be able to fund these upgrades and equipment purchases through our internal cash, and do not anticipate that these obligations will have a material impact on our liquidity needs.

In connection with the required compliance with the National Standard, we may need to incur additional capital expenditures in order to upgrade the mobile digital television receivers, and we believe that these capital expenditures would not materially affect our liquidity.

**B. Business Overview****Overview**

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. Due to PRC regulatory restrictions on foreign investments in the advertising and mobile digital television industries, we operate our advertising business in China through our consolidated affiliated entities. Our relationships with our consolidated affiliated entities and their shareholders are governed by a series of contractual arrangements that allow us to effectively control, and derive substantially all of the economic benefits from, our consolidated affiliated entities. Our mobile digital television advertising network, or our network, which delivers real-time content provided by the local television stations in addition to advertising, differentiates us from other out-of-home advertising networks in China, and we believe this facilitates our future expansion into different advertising media platforms. Our advertising network consists of digital television displays located on buses and in subway trains that receive mobile digital television broadcasts of real-time content and advertising. We also operate various closed-circuit advertising digital displays in certain subway platforms and subway trains in Guangzhou and subway platforms in Shenzhen. In addition, as a result of our acquisition of Digital Media Group, we operate closed-circuit digital television displays in subway platforms and subway trains in Beijing (Lines 1, 2 and 4), Chongqing, and Tianjin and airport trains in Hong Kong. We consider these closed-circuit digital display networks to be part of our supplemental subway advertising platform, as these displays do not currently receive mobile digital television broadcasts. As of December 31, 2009, our network and supplemental subway advertising platform covered 19 cities in China and consisted of approximately 89,299 digital 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.

We believe that our network delivers substantial value to 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 helps make the advertisements more effective for our advertising clients. In addition, the real-time broadcasting capability of our network allows us to utilize our network to disseminate public-interest messages and programs that promote the general welfare of society and other urgent messages during emergency situations such as typhoons, earthquakes or other events that concern public safety.

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

**Table of Contents**

We principally derive revenues by selling advertising time during breaks in between the programs on our network and supplemental subway advertising platform. In addition, we have the ability to sell soft advertising time embedded in the programs. We charge our advertising clients by the broadcasting time of the advertisement in each city where they want to place their advertisement. We divide our cities into different price categories based on a variety of factors, including the number of installed displays, population, demand and consumer purchasing power. We also vary pricing based on the time of day when an advertisement is broadcasted, with higher prices typically during the morning and evening commute periods.

As of December 31, 2009, we use the following business models for our advertising operations in China:

***Exclusive agency model*** refers to our arrangements, with terms typically ranging up to 12 years, in 16 cities: Beijing, Changchun, Chengdu, Dalian, Guangzhou, Hangzhou, Nanjing, Ningbo, Shenyang, Shenzhen, Suzhou, Taiyuan, Tianjin, Wuhan, Wuxi and Xiamen. We have entered into an exclusive advertising agency agreement with the partner local mobile digital television company or local subway authority in each city that typically gives us the exclusive right to sell all of the advertising time on our local partner's mobile digital television network located on buses or subways. Our exclusive agency arrangements in Suzhou, Wuxi and Xiamen that gives us the exclusive right to sell a portion of the advertising time that does not include sales of advertising time to local advertisers within each respective city. For our supplemental subway advertising operations, we have also entered into an exclusive advertising agency agreement with the partner subway authority or partner local mobile digital television company in subway trains and platforms in Guangzhou and subway platforms in Shenzhen.

***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 annual report. This model gives us the opportunity to work in conjunction with the local television station to provide programs to meet the demands of our audience and advertising clients. In some of our direct investment cities, such as Changchun, Chengdu, Dalian, Ningbo, Shenzhen, Suzhou, Wuhan and Wuxi, we have also 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 at commercial prices from our direct investment entities and resell them to our advertising clients.

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

Through December 31, 2009, 1,130 advertisers had purchased advertising time on our mobile digital television advertising network or our supplemental subway advertising platform either directly or through an advertising agent. As a result, our network has attracted a large number of blue-chip companies to purchase advertising time either directly or through an agent. Our top three brand name advertisers, Unilever, Yum! Brands and Luciano Soprani in aggregate accounted for approximately 17.7% of our advertising service revenues for the year ended December 31, 2009. We believe the appeal and effectiveness of our advertising network is largely evidenced by the number of advertisers who place repeated and multiple advertising campaigns on our network. We generated total revenues of US\$120.7 million in 2009, US\$104.1 million in 2008 and US\$29.4 million in 2007. We achieved a net income attributable to our common shareholders of US\$26.6 million in 2009, US\$46.8 million in 2008 and US\$9.4 million in 2007.

**Table of Contents**

***Our Advertising Network***

The following map and tables illustrate the geographic scope of our mobile digital television advertising network and supplemental subway advertising platform as of March 31, 2010:

<b>Our Mobile Digital Television Advertising Network Cities</b>	<b>Exclusive Agency</b>	<b>Direct Investment</b>
Beijing (bus)	ü	
Beijing (five subway lines) <sup>(1)</sup>	ü	
Changchun	ü	ü
Changsha <sup>(2)</sup>	ü (2010)	
Changzhou <sup>(3)</sup>	ü (2010)	ü
Chengdu	ü	ü
Dalian	ü	ü

**Table of Contents**

	<b>Exclusive Agency</b>	<b>Direct Investment</b>
<b>Our Mobile Digital Television Advertising Network Cities</b>		
Guangzhou	ü	
Hangzhou <sup>(4)</sup>	ü	
Harbin		ü
Nanjing	ü	
Nanjing (subway) <sup>(5)</sup>	ü (2010)	
Ningbo	ü	ü
Shanghai (subway) <sup>(6)</sup>	ü (2010)	
Shanghai (bus stop shelters) <sup>(7)</sup>	ü (2010)	
Shenyang	ü	
Shenzhen	ü	ü
Shenzhen (subway trains) <sup>(8)</sup>	ü (2010)	
Suzhou <sup>(9)</sup>	ü	ü
Taiyuan	ü	
Tianjin <sup>(10)</sup>	ü	
Wuhan	ü	ü
Wuxi <sup>(11)</sup>	ü	ü
Xiamen <sup>(12)</sup>	ü	
Zhengzhou		ü

(1) Our exclusive agency arrangement in the Beijing subway gives us the exclusive right to sell all the advertising time on the mobile digital television network in five lines of the Beijing subway (Line 5, Line 10, Line 13, the Batong Line and the Olympic Line).

(2) Our exclusive agency agreement in Changsha gives us the exclusive rights to sell all the advertising

time on  
Changsha's  
mobile digital  
television  
network from  
January 1, 2010  
to December 31,  
2012.

- (3) Our exclusive  
agency  
arrangement in  
Changzhou  
gives us the  
exclusive right  
to sell a portion  
of the  
advertising time  
on Changzhou's  
mobile digital  
television  
network to  
advertisers  
excluding those  
from  
Changzhou  
from January 1,  
2010 to  
March 18, 2017.

- (4) Our exclusive  
agency  
arrangement in  
Hangzhou gives  
us the exclusive  
right to sell all  
of the  
advertising time  
on public buses  
and ferries  
covered by the  
mobile digital  
television  
network  
operated by  
Hangzhou New  
& Mobile  
Media from  
January 1, 2010  
to December 31,  
2012.

(5) Our exclusive agency arrangement in the Nanjing subway, which was acquired through our acquisition of Digital Media Group, gives us the exclusive right to sell all of the advertising time on the mobile digital television network in Line 1 of the Nanjing subway from January 2, 2010 to August 31, 2013.

(6) Our exclusive agency arrangement in the Shanghai subway, which was acquired through our acquisition of Digital Media Group, gives us the exclusive right to sell all of the advertising time on the mobile digital television network in 13 lines of the Shanghai subway from January 2, 2010 to December 31, 2013.

(7) Our exclusive agency arrangement in



Shanghai for bus stop shelters, which was acquired through our acquisition of Digital Media Group, gives us the exclusive right to sell all of the advertising time on the mobile digital television network in certain bus stop shelters in Shanghai from January 2, 2010 to June 30, 2011.

- (8) Our exclusive agency arrangement in Shenzhen for subway trains, which was acquired through our acquisition of Digital Media Group, gives us the exclusive right to sell all of the advertising time on the mobile digital television network in Line 1 of the Shenzhen subway from January 2, 2010 to December 30, 2012.

- (9) Our exclusive agency arrangement in Suzhou gives us

the exclusive right to sell a portion of the advertising time on Suzhou's mobile digital television network, excluding sales of advertising time to advertisers from Suzhou.

(10) Our exclusive agency arrangement in Tianjin that gives us the exclusive right to sell all the advertising time on Tianjin's mobile digital television network from January 1, 2010 to December 31, 2011.

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

(12) Our exclusive agency

agreement in  
Xiamen gives us  
the exclusive  
rights to sell a  
portion of the  
advertising time  
on the mobile  
television  
network  
operated by  
Xiamen TV  
Digital Co.,  
Ltd., from  
October 1, 2009  
to December 31,  
2012, to  
non-Xiamen  
based national  
advertisers.

**Table of Contents**

	<b>Exclusive Agency</b>	<b>Direct Investment</b>
<b>Our Supplemental Subway Advertising Platform Cities</b>		
Beijing (three subway lines) <sup>(1)</sup>	ü (2010)	
Chongqing <sup>(2)</sup>		ü (2010)
Guangzhou <sup>(3)</sup>	ü	
Hong Kong <sup>(4)</sup>	ü (2010)	
Shenzhen (subway stations) <sup>(5)</sup>	ü	
Tianjin <sup>(6)</sup>	ü (2010)	

(1) Our exclusive agency arrangements in Beijing, which were acquired through our acquisition of Digital Media Group, give us the exclusive right to sell all of the advertising time on the television platform in subway Lines 1, 2 and 4 of the Beijing subway.

(2) Our arrangement in Chongqing, which were acquired through our acquisition of Digital Media Group, gives our direct investment entity the exclusive right to sell all of the advertising time on the television platform in Chongqing's Light Rail Line 2.

- (3) Our exclusive agency arrangements gives us the exclusive right with respect to the digital displays on the subway platforms and in the subway trains in Guangzhou and seven large digital displays located in the subway stations in Guangzhou.
  
- (4) Our exclusive agency arrangements in Hong Kong, which were acquired through our acquisition of Digital Media Group, give us the exclusive right to sell all of the advertising time on the television platform in the Kowloon Through Train and Airport Express Line in Hong Kong.
  
- (5) Our exclusive agency arrangement in Shenzhen gives us the exclusive right to sell all the advertising time on the television

platform in subway station in Line 1 of the Shenzhen subway.

- (6) Our exclusive agency arrangements in Tianjin, which was acquired through our acquisition of Digital Media Group, give us the exclusive right to sell all of the advertising time on the television platform in Line 1 and in Light Rail Jinbin Line of the Tianjin subway.

Our mobile digital television advertising network and supplemental subway advertising platform include digital displays installed in the mass transportation systems in 19 cities around China as of December 31, 2009. Those digital television displays in our mobile digital television advertising network receive real-time programs broadcast by the local television stations on the mobile digital television frequencies. The digital television screens in our supplemental subway advertising platform receive programming transmitted through closed circuit digital networks. As of December 31, 2009, our mobile digital television advertising network and supplemental subway advertising platform consisted of approximately 89,299 digital displays.

We believe that our network bridges the gap between traditional television advertising and other out-of-home advertising networks by combining the advantages of each medium. Our advertising network captures the attention of the audience with real-time broadcasts of programs and also reaches the audience in out-of-home locations such as the mass transportation system. Similar to traditional television broadcasts, our network delivers real-time news and stock quotes, sports and other entertainment programs for some of the total broadcast time and advertising content during short breaks between the programs. On the other hand, our network has similarities to other out-of-home advertising networks because it reaches the audience in public venues. We believe that our network delivers substantial value to our advertising clients by reaching the targeted audience while they remain in an enclosed environment.

***Our Advertising Network***

We conduct our mobile digital television advertising operations under the following three contractual arrangements:

***Our Exclusive Agency Cities***

As of December 31, 2009, we operated our advertising network under the exclusive agency model in 16 cities: Beijing, Changchun, Chengdu, Dalian, Guangzhou, Hangzhou, Nanjing, Ningbo, Shenyang, Shenzhen, Suzhou, Taiyuan, Tianjin, Wuhan, Wuxi and Xiamen. Our advertising network operating under the exclusive agency model in Beijing, Guangzhou and Shenzhen in aggregate accounted for approximately 62.9% of our advertising service revenues for the year ended December 31, 2009. We entered into exclusive agency agreements with Beijing Beiguang Media Mobile Television Co., Ltd. on October 13, 2006 for a term of 10 years and Shenzhen Mobile Television Co., Ltd. on December 31, 2006 for a term of four years and seven months and with Guangzhou Zhujiang Mobile

Multimedia Information Co., Ltd. on July 26, 2007 for a term of eight years. Our advertising network under the exclusive agency model expanded to Changsha and Changzhou in 2010.

**Table of Contents**

Under our exclusive agency model, we enter into an exclusive agreement with the local mobile digital television company to become the exclusive advertising agent for that network. Our exclusive agency arrangements in Suzhou, Wuxi and Xiamen, which give us the exclusive right to sell a portion of the advertising time on the mobile digital television network in that city, does not include sales of advertising time to local advertisers from Suzhou, Wuxi and Xiamen, respectively. In addition, our exclusive agency arrangement in Changzhou gives us the exclusive right to sell a portion of the advertising time to advertisers excluding local advertisers from Changzhou, effective from January 1, 2010.

For our supplemental subway advertising operations, we have also entered into exclusive agency agreements with the operators of the digital display networks on Shenzhen's subway platforms and Guangzhou's subway trains and platforms to place our advertisements on these digital displays, which do not receive mobile digital television broadcasts.

In October 2009, we entered into an agreement (which was amended and restated in November 2009) to acquire Digital Media Group, which was completed in January 2010. The total consideration of US\$160 million (or US\$167 million based on the fair value of the total consideration on the acquisition date in January 2010) is payable in three installments over two years in cash and shares. In November 2009, we deposited the initial installment of US\$40 million and 8,476,013 of our common shares, registered under Vision Best Limited, our consolidated subsidiary, into an escrow account, a portion of which was released at the completion of the acquisition and the remaining portion to be released in accordance with the terms of the agreement and plan relating to our acquisition of Digital Media Group. The second installment of US\$30 million will be paid on the first anniversaries of the acquisition, of which US\$20 million will be in the form of cash and US\$10 million in the form of cash or shares at the option of the eligible former shareholders of Digital Media Group. The number of our ordinary shares representing the share consideration of the second installment shall be equal to the quotient of US\$10 million divided by the higher of (A) 125% of US\$7.0788 (the Initial Conversion Price) and (B) 80% of the average of the closing sales prices for one ADS as reported on the Nasdaq Global Market for the twenty consecutive trading days ending (and including) two day prior to the payment date. The third installment of US\$30 million will be paid on the second anniversaries of the acquisition, of which US\$20 million will be in the form of cash and US\$10 million in cash or shares at the option of the eligible former shareholders of Digital Media Group. The number of our ordinary shares representing the share consideration of the third installment shall be equal to the quotient of US\$10 million divided by the higher of (A) 150% of the Initial Conversion Price and (B) 80% of the average of the closing sales prices for one ADS as reported on the Nasdaq Global Market for the twenty consecutive trading days ending (and including) one day prior to the payment date. Through this acquisition, we obtained exclusive agency rights for the mobile digital television networks in the subway trains and subway platforms in Nanjing and Shanghai and subway trains in Shenzhen. In addition, as part of the acquisition, we have obtained the exclusive agency rights for the digital display network in certain subway trains and platforms in Beijing (lines 1, 2, and 4), Tianjin, Chongqing and Hong Kong.

According to the typical terms of the exclusive agency agreements:

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

We have the responsibility to invest in new digital television displays and install the displays in new buses in Beijing, Guangzhou, Nanjing, Shenyang and Shenzhen. For our supplemental subway advertising operations acquired in connection with our acquisition of Digital Media Group, we have the responsibility to install displays in the subway trains and platforms in Beijing (Line 4), Hong Kong, Chongqing, and Tianjin, and we have the responsibility to upgrade displays in Nanjing. Most of these displays were installed and upgraded prior to our acquisition of Digital Media Group.

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



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

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

Our exclusive agency agreement for mobile digital television displays in buses in Beijing provides that, upon the establishment of a joint venture company between the parties, the exclusive agency agreement will terminate and we will transfer the operations to the joint venture company. We have the obligation to install digital television displays in new buses pursuant to the terms of the agreement between our local operating partner and the local bus company in Beijing. If we fail to perform this obligation or if we fail to timely pay the network rental fee, our local operating partner in Beijing may unilaterally terminate the exclusive agency agreement. Upon termination of this agreement, our local operating partner will have title to all of the digital television displays that we installed.

**Table of Contents**

We have the obligation to install digital television displays in new buses pursuant to the terms of the agreement between our local operating partner and the local bus company in Shenzhen. In addition, we have the obligation to maintain all of the digital television displays installed in our local operating partner's mobile digital television network. The cost of installing and maintaining the digital television displays is deductible from the network rental fee. The price we charge for the advertising time on our local operating partner's mobile digital television network in Shenzhen must comply with our local operating partner's pricing system. The local operating partner may request the court in Shenzhen to terminate this contract as a remedy if the parties fail to reach an agreement with respect to any disputes that arise regarding our pricing.

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

***Our Direct Investment Cities***

As of December 31, 2009, we operated our mobile digital television advertising network under the direct investment model in 11 cities: Changchun, Changzhou, Chengdu, Dalian, Harbin, Ningbo, Shenzhen, Suzhou, Wuhan, Wuxi and Zhengzhou. In addition to the primary installations of digital television displays on buses, we also have displays installed in buildings that receive digital television broadcasts from our mobile digital television advertising network in Harbin, Wuhan and Wuxi. Under our direct investment model, we form an operating company together with the local television station authorized to operate the digital television network in that city. Due to regulatory considerations, we typically own 49% of the direct investment entity and our partner owns the other 51%, but in Shenzhen and Wuxi we own 25% and 14%, respectively. Under these direct investment agreements:

We nominate the general managers, for appointment by the boards of directors, of most of the direct investment entities.

We train the locally recruited sales force.

We purchase the advertising time from our direct investment entity and place advertisements for broadcasting on the local network.

We sell the assembled digital television displays to the direct investment entity.

The local television station obtains the necessary approvals for operating the mobile digital television station.

The local television station provides the transmission equipment to broadcast the advertising and program in that city.

The direct investment entity enters into contracts with the local mass transportation companies to install our digital television displays in the buses and other suitable locations.

The local television station provides the news, entertainment and other programs for broadcasting on the direct investment entity's network, and the local television station ensures that the programs conform to applicable PRC content laws and regulations.

**Table of Contents**

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

We have entered into an exclusive agency agreements with our direct investment entity in Changchun, Chengdu, Dalian, Ningbo, Shenzhen and Wuhan to control all of the advertising time on the mobile digital television network operated by such entity in that city. Our exclusive agency arrangements with our direct investment entities in Changzhou, Suzhou and Wuxi that give us the exclusive right to sell a portion of the advertising time on Changzhou's, Suzhou's and Wuxi's mobile digital television network does not include sales of advertising time to advertisers from Changzhou, Suzhou and Wuxi, respectively. These exclusive agency agreements grant us the exclusive right to sell the advertising time on the direct investment network typically for a term ranging from four years to 8 years. Under these arrangements, we realize all of the advertising revenues and pay a pre-determined network rental fee to the direct investment entity. Under this type of contract, the direct investment entity effectively transfers the operational risk to us and enjoys a guaranteed stream of revenues.

In January 2010, we completed our acquisition of Digital Media Group and acquired a direct investment entity in Chongqing in partnership with the local subway authority to operate digital screen advertising on subway trains and subway platforms in that city.

***Our Outreach Agency Cities***

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

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

**Advertising Clients, Sales and Marketing*****Our Advertising Clients***

The quality and broad geographic coverage of our mobile digital television advertising network has attracted a broad base of international and domestic advertisers. Since our inception, 1,130 advertisers have purchased advertising time on our mobile digital television advertising network or our supplemental subway advertising platform either directly or through an agent as of December 31, 2009. We regularly work together with some of the largest global advertising agencies, or 4A agencies, to place advertisements for their clients. We have the ability to place a client's advertisements in one or more cities, both within and beyond our network, according to their demands. As of December 31, 2009, we have placed advertisements in 29 cities across China. As a result, our network has attracted a large number of blue-chip companies to purchase advertising time either directly or through an agent pursuant to contracts. Our top three brand name advertisers, Unilever, Yum! Brands and Luciano Soprani, in aggregate accounted for approximately 17.7% of our advertising service revenues for the year ended December 31, 2009. We believe the appeal and effectiveness of our advertising network is largely evidenced by the number of advertisers who place repeated and multiple advertising campaigns on our network.

The following table sets forth a breakdown of our advertisers by industry for the year ended December 31, 2009:

**Table of Contents**

<b>Industry</b>	<b>% of total advertising service revenues</b>
Food, Beverage, Restaurants, Wines and Spirits	22.7%
Pharmaceutical and Nutritional Supplements	19.7%
Household Products	12.2%
Fashion and Accessories	16.4%
Electronics and Digital Products	8.0%
Financial Services	4.7%
Tourism	2.6%
IT and internet	4.8%
Others	8.9%

***Sales and Marketing***

As of December 31, 2009, we employed an experienced advertising sales force of 368 employees. We also engaged consultants to assist our marketing efforts. In addition to our direct sales force, we also sell our advertising time through third party advertising agencies such as the 4A agencies. We provide in-house education and training to our sales force to ensure that they provide our current and prospective clients with comprehensive information about our services, the advantages of using our mobile digital television advertising network as a marketing channel and relevant information regarding the advertising industry as a whole. We organize our sales force into teams to provide specialized coverage for geographic regions. We believe that our regional coverage teams provide quality service for our advertisers and allow our sales and marketing teams to focus on building close relationships and staying abreast of regional market trends. We also market our advertising services from time to time by placing advertisements on our own network.

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

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

***Advertising Contracts***

The standard advertising package includes advertising time on our network in a particular city on either the mobile digital television advertising network or our supplemental subway advertising platform, and our clients often combine standard advertising packages to purchase advertising time across multiple cities. Our sales are made pursuant to written contracts with commitments ranging from one week to one year. Similar to traditional television advertising, we primarily sell advertising time during breaks between programs and we also sell soft advertising embedded into programs. The majority of our customers purchase the advertising time during breaks between programs and we often

provide flexible durations of time to meet the specific demands of our advertising clients. Our clients may choose to air these advertisements during specific times of the day or throughout the entire day. Our advertising rates vary depending on the time of day, the broadcast city and the receiving platform. We divide our cities into different categories and charge rates consistent with the advertising market in that city. We evaluate the listed price at the end of each quarter against the prevailing advertising rates for our competitors in each city and determine any adjustments based on prevailing market trends. The price we charge for the advertising time differs in each city as a function of the size of our network, the quality and mixture of the programming, socioeconomic conditions and other prevailing market considerations.

**Table of Contents**

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

**Programming**

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

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

**Relationships with Location Providers**

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

***Our Exclusive Agency Cities***

In our exclusive agency cities, the local mobile digital television company typically negotiates directly with the bus companies for a placement agreement to secure the right to install digital television displays and then exclusively assigns that right to us. In our exclusive agency cities that are also our direct investment cities, the direct investment entity usually negotiates directly with the bus companies or other location providers for a placement agreement to secure the right to install and operate the digital television displays. In Guangzhou, which is an exclusive agency city, our local affiliate has entered into agreements directly with two bus companies to install and operate the mobile digital television displays. In Changzhou, which is also an exclusive agency city, we have entered into an agreement directly with the local bus company to install and operate the mobile digital television displays. For our supplemental subway advertising operations, we have entered into exclusive agency agreements with the local subway authorities or their related entities. As a result of our acquisition of Digital Media Group, we have acquired supplemental subway advertising operations in Nanjing and Shenzhen (Line 1) which have exclusive agency agreements with the local mobile digital television company which, in turn, have agreements in place with the local subway authority.

***Our Direct Investment Cities***

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

## **Table of Contents**

### **Technology**

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

### **Suppliers**

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

Our primary supplier of LCD screens, Xiamen Overseas Chinese Electronic Co., Ltd., or Prima, also purchases advertising time on our network and was our customer in 2007 and 2008. None of our transactions with Prima was performed through barter transactions, and we believe that all of our contracts with Prima have been negotiated at arms length for fair market value.

### **Competition**

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

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

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





## **Table of Contents**

### **Intellectual Property**

Our intellectual property consists of our trademarks and design patents related to some of the equipment. As of December 31, 2010, we held six patents issued in the PRC.

### **Insurance**

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

### **Regulation**

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

#### ***Regulations on the Television Industry***

##### ***Television content***

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

##### ***Foreign investment in television operations***

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

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

**Table of Contents**

***Foreign investments in television content production***

According to the Catalogue of Foreign Investment Industries, amended on October 31, 2007 and became effective on December 1, 2007, foreign investors are prohibited from owning equity interests in companies that are engaged in producing radio and TV programs or drama series.

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

***Mobile digital television***

On March 27, 2006, 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 shall be operated without approval of SARFT;

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

no foreign investment in mobile digital television operations is permitted;

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

existing mobile digital television network operations must apply for SARFT approval before April 30, 2006, and must stop operating by June 15, 2006 if they failed to submit an application by April 30, 2006 or their application was disapproved by SARFT.

The March 2006 Notice also provides that the local SARFT branches have the authority to order any mobile digital television operators who have violated the March 2006 Notice to stop operating their mobile digital television networks. The March 2006 Notice does not define the term experimental mobile digital television. We believe this term was used because when the notice was promulgated, mobile digital television was a nascent industry in China and technology standards for such industry had not been adopted. We believe the March 2006 Notice applies to the mobile digital television operations by our local operating partners.

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

SARFT issued a notice to provincial level SARFT branches in China in July 2007 regarding mobile digital television operations. The notice contains provisions regarding: (i) the authority of local SARFT branches to control program production and broadcasting on the mobile digital television networks; (ii) the development of the mobile digital television business; (iii) permission for non-state-owned enterprises to form joint ventures with SARFT-affiliated entities to engage in advertising, marketing, program production and equipment installation services

in connection with mobile digital television operations as long as SARFT-affiliated entities control at least 51% equity interest in such joint ventures; (iv) the transition into the National Standard for mobile digital television operations; and (v) the requirement that each local SARFT branch inspect the mobile digital television operations within its jurisdiction. We do not own over 49% equity interest in any of our direct investment entities that we have jointly established with relevant local SARFT-affiliated entities.

**Table of Contents**

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

***Regulations on the Advertising Industry******Foreign investments in advertising***

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

We are a Cayman Islands corporation and a foreign legal person under PRC laws and we have not directly operated any advertising business outside of China. Therefore, we do not qualify under PRC regulations to directly provide advertising services. Accordingly, our subsidiary, CDTC, is ineligible to apply for the required licenses for providing advertising services in China. Our advertising business is operated by our consolidated affiliated entities, which hold the requisite licenses to provide advertising services in China. Our advertising business is currently provided through our contractual arrangements with our consolidated affiliated entities in China, which hold the requisite licenses to provide advertising services in China. One of our consolidated affiliated entities, VisionChina Media Group, is currently owned by Limin Li and Yanqing Liang. We do not have any equity interest in VisionChina Media Group but we receive the economic benefits of it through various contractual arrangements. See Item 7. Major Shareholders and Related Party Transactions B. Related Party Transactions. In January 2010, we completed our acquisition of Digital Media Group, which operated and continues to operate, its advertising business through its consolidated affiliated entity in China, Beijing Eastlong Advertising. Beijing Eastlong Advertising is currently owned by Men Qijun and Wang Haifeng. Digital Media Group does not have any equity interest in Beijing Eastlong Advertising but receives the economic benefits and bear economic risks of it through various contractual arrangements. Our consolidated affiliated entities and their subsidiaries directly operate our advertising network, enter into direct investment and exclusive and non-exclusive advertising agency agreements, and sell advertising time to our clients. We have been and expect to continue to be dependent on our consolidated affiliated entities and their subsidiaries to operate our advertising business.

***Advertising content***

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

**Table of Contents**

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

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

***Tax***

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

The PRC EIT Law became effective on January 1, 2008. Under the EIT Law and the implementation regulations under the EIT Law issued by the PRC State Council, China has adopted a uniform tax rate of 25% for all enterprises (including foreign-invested enterprises) and revoked the previous tax exemption, reduction and preferential treatments applicable to foreign-invested enterprises. However, there is a transition period for enterprises, whether foreign-invested or domestic, that received preferential tax treatments granted by relevant tax authorities prior to January 1, 2008. Enterprises that were subject to an enterprise income tax rate lower than 25% prior to January 1, 2008 may continue to enjoy the lower rate and gradually transition to the new tax rate within five years. Enterprises that were entitled to exemptions or reductions from the standard income tax rate for a fixed term prior to January 1, 2008 may continue to enjoy such treatment until the fixed term expires. However, if a foreign-invested enterprise had not become profitable before the end of December 2007, a two-year exemption from the enterprise income tax will be granted for the period between the time the enterprise becomes profitable and December 31, 2009. According to the implementation regulations, during the transition period, the enterprise income tax rate of CDTC is 18%, 20%, 22%, 24% and 25% in the year of 2008, 2009, 2010, 2011 and 2012, respectively. Preferential tax treatments may continue to be granted to industries and projects that are strongly supported and encouraged by the state, and enterprises classified as new and high technology enterprises strongly supported by the state are entitled to a 15% enterprise income tax rate. VisionChina Media Group was designated as new and high technology enterprises strongly supported by the state in November 2008 and, as a result, will be subject to an enterprise income tax rate of 15% for 2009 and 2010. Therefore, the enterprise income tax rate of VisionChina Media Group is 0%, 15%, 15%, 24% and 25% in the

year of 2008, 2009, 2010, 2011 and 2012, respectively. One of our operating subsidiaries established in Luzhou in Sichuan province was recognized as a local government encouraged company and is entitled to exemption from the enterprise income tax for 2008 and 2009.

**Table of Contents**

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

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

In addition, we conduct advertising business through our contractual arrangements with our consolidated affiliated entities, which are currently owned by individuals. We must pay taxes at the individual income tax of 20% on behalf of our employees who hold interests in a consolidated affiliated entity when that consolidated affiliated entity distributes dividends in the future. Furthermore, there may be potential business taxes arising from the contractual arrangements with our consolidated affiliated entities. If we cannot retrieve the undistributed earnings in our consolidated affiliated entities in a tax free manner, we may need to pay additional taxes upon distribution of such undistributed earnings.

***Regulations on Foreign Currency Exchange******Foreign currency exchange***

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

**Table of Contents**

The business operations of our PRC subsidiary and affiliated entities, which are subject to the foreign currency exchange regulations, have all been in accordance with these regulations. We will take steps to ensure that the future operations of these PRC entities are in compliance with these regulations.

***Foreign exchange registration of offshore investment by PRC residents***

Pursuant to SAFE's Notice on Relevant Issues Concerning Foreign Exchange Administration for PRC Residents to Engage in Financing and Inbound Investment via Overseas Special Purpose Vehicles, or Circular No. 75, issued on October 21, 2005, (i) a PRC resident, including a PRC resident natural person or a PRC company, shall register with the local branch of SAFE before it establishes or controls an overseas special purpose vehicle, or SPV, for the purpose of overseas equity financing (including convertible debt financing); (ii) when a PRC resident contributes the assets of or its equity interests in a domestic enterprise to an SPV, or engages in overseas financing after contributing assets or equity interests to an SPV, such PRC resident shall register his or her interest in the SPV and the change thereof with the local SAFE branch; and (iii) when the SPV undergoes a material event outside of China, such as a change in share capital, or merger or acquisition, the PRC resident shall, within 30 days of the occurrence of such event, register such change with the local branch of SAFE. PRC residents who are shareholders of SPVs established before November 1, 2005 were required to register with the local SAFE branch before March 31, 2006.

Under Circular No. 75, failure to comply with the registration procedures set forth above may result in penalties, including restrictions on a PRC subsidiary's foreign exchange activities in capital accounts and its ability to distribute dividends to the SPV.

On December 25, 2006, the People's Bank of China promulgated the Measures for the Administration of Individual Foreign Exchange, and on January 5, 2007, SAFE promulgated the implementation rules on those measures. These regulations became effective on February 1, 2007. Pursuant to these regulations, PRC citizens who are granted shares or share options by an overseas listed company according to its employee share option or share incentive plan are required, through a qualified PRC agent which may be the PRC subsidiary of such overseas listed company, to register with the SAFE and complete certain other procedures related to the share option or share incentive plan. Foreign exchange income received from the sale of shares or dividends distributed by the overseas listed company must be remitted into a foreign currency account of such PRC citizen or be exchanged into Renminbi. Our PRC citizen employees who have been granted share options, or PRC optionees, will be subject to these regulations upon the listing of our ADSs on the Nasdaq Global Market. If we or our PRC optionees fail to comply with these regulations, we or our PRC optionees may be subject to fines and legal sanctions.

***Dividend Distribution***

The principal laws, rules and regulations governing dividends paid by PRC operating subsidiaries include the Company Law of the PRC (1993), as amended in 2006, the Wholly Foreign Owned Enterprise Law (1986), as amended in 2000, and the Wholly Foreign Owned Enterprise Law Implementation Rules (1990), as amended in 2001. Under these laws and regulations, PRC subsidiaries, including wholly foreign owned enterprises, or WFOEs, and domestic companies in China, may pay dividends only out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, PRC subsidiaries and consolidated affiliates, including WFOEs and domestic companies, are required to set aside at least 10% of their after-tax profit based on PRC accounting standards each year to their statutory capital reserve fund until the cumulative amount of such reserve reaches 50% of their respective registered capital. These reserves are not distributable as cash dividends.

**C. Organizational Structure**

The following diagram illustrates our company's organizational structure, and the place of formation, ownership interest and affiliation of each of our principal subsidiaries and affiliated entities as of March 31, 2010.



**Table of Contents**

**D. Property, Plant and Equipment**

Our principal executive offices are located at our headquarters comprising approximately 920 square meters in Shenzhen, China. We also maintain offices in other cities in China. We lease all of our facilities and do not own any real property. We lease some of our facilities from related parties. See Item 7. Major Shareholders and Related Party Transactions B. Related Party Transactions Transactions with Companies Under Common Control with Us Lease and Loan with Meidi Zhiye. We believe that our leased facilities are adequate to meet our needs for the foreseeable future, and we believe that we will be able to obtain adequate facilities, principally through leasing of additional properties, to accommodate our future expansion plans.

The primary hardware required for the operation of our business consists of digital television displays, mobile digital television receivers, speakers and other related equipment that we use in our mobile digital television advertising network. We purchase our digital television displays and receivers from third party manufacturers who build these components according to our specifications. As there are several other qualified alternative suppliers for our equipment, our obligation to our current suppliers is not exclusive. We have never experienced any material delay or interruption in the supply of our digital television displays.

**Item 4A. Unresolved Staff Comments**

None.

**Item 5. Operating and Financial Review and Prospects**

*You should read the following discussion and analysis of our financial condition and results of operations in conjunction with our consolidated financial statements and the related notes included elsewhere in this annual report. This discussion may contain forward-looking statements based upon current expectations that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under Item 3. Key Information D. Risk Factors or in other parts of this annual report.*

**Table of Contents**

**A. Operating Results**

**Overview**

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. As of December 31, 2009, our mobile digital television advertising network consists primarily of our digital television displays installed on buses and subways. As of December 31, 2009, our mobile digital television advertising network and supplemental subway advertising platform covered 19 cities in China and consisted of approximately 89,299 digital displays. We derive revenues by selling advertising time on our network and our supplemental subway advertising platform and from sales of advertising equipment to our direct investment entities.

We have experienced significant revenue growth, and the size of our network has grown significantly since the commercial launch of our advertising network in 2005. In 2008, we acquired six advertising agency businesses and integrated their customer bases and strong sales teams into our operation. In January 2010, we completed our acquisition of Digital Media Group and expanded our advertising network to include various subway lines in China, the Shanghai bus shelter network and the Hong Kong Airport Express Line. We have expanded our operations through three different types of arrangements that consist of our exclusive agency model, our direct investment model and our outreach agency model.

We expect our future growth to be driven by a number of factors and trends including:

the overall economic growth in China, which we expect to contribute to an increase in advertising spending in major urban areas in China where consumer spending is concentrated;

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 expand our network and supplemental subway advertising platform into new locations and additional cities;

our ability to secure exclusive agency arrangements with mobile digital television companies in additional cities to control the advertising time on that network;

our ability to respond to competitive pressures and to compete effectively when expanding the reach of our network;

our ability to increase sales of advertising time and extend the total minutes available for broadcasting of advertisements across all of our cities;

our ability to attract more revenues from our existing clients and expand our client base through promotion of our services;

our ability to provide programs that appeal to the local viewers;

our ability to enhance the technology of our network to make our advertising platform more effective; and

**Table of Contents**

our ability to acquire companies that operate advertising businesses complementary to our existing operations.

As an important source of revenues is our advertising service revenues, we focus on factors that directly affect our advertising service revenues such as (i) the total advertising time that we have available across all of our cities, (ii) the actual price we charge for our advertising time and (iii) the programming to advertising ratio. The actual price we charge advertising clients, which equals the official list price minus any discounts, for time on our network is affected by, among other things, (i) the overall socioeconomic conditions in each city, (ii) the level of demand for advertising time in each city, and (iii) the perceived effectiveness of our network in achieving the goals of our advertising clients. The effectiveness of our network directly relates to our ability to expand the coverage of our mobile digital television advertising network and our ability to provide programs that draw the attention of viewers. We also measure our performance using an average revenues per hour metric, which we calculate by dividing the advertising service revenues by the total hours of broadcasting in the cities of our network and supplemental subway advertising platform.

As we continue to expand our network, we expect to face a number of challenges. Entering into a new market requires us to develop a contractual relationship with the local television station or its mobile digital television affiliate, so expansion into new cities may require an extended amount of time. To the extent we expand our network beyond mass transportation systems, we may compete directly with other companies that have already occupied many of the most desirable locations in China's major cities. In addition, we must react to continuing technological innovations in our industry and changes in the regulatory environment. In connection with the required compliance with the National Standard for mobile digital television, our direct investment entities and our local operating partners will need to upgrade the digital television displays in their networks to conform to the National Standard. Currently, we cannot accurately estimate the amount and timing of capital expenditures required to migrate to the National Standard. We have implemented a number of measures to address these anticipated challenges: (i) we had a special team of ten employees and four outside advisors as of December 31, 2009 that focuses on business development and expansion of our network; (ii) our management maintains an active dialogue with the relevant regulatory authorities to stay abreast of new developments and ensure compliance with all current laws and regulations; and (iii) we purchase digital television displays and other related equipment with easily upgradable components to minimize the capital expenditures required to upgrade our network in response to technological or regulatory changes in our industry.

**Revenues**

We had total revenues of US\$29.4 million, US\$104.1 million and US\$120.7 million for the years ended December 31, 2007, 2008 and 2009, respectively. We generate revenues from the sales of advertising time on our mobile digital television advertising network and, starting in 2007, on our supplemental subway advertising platform. We principally derive our advertising service revenues from sales of advertising time between the programs, but starting in July 2007, we derive some revenues from soft advertising embedded into the programs on our network. We also have generated revenues from sales of our digital television displays to our direct investment entities, which we refer to as our advertising equipment revenues. The following table sets forth a breakdown of our total revenues for the periods indicated.

**Table of Contents**

	For the year ended December 31,					
	2007		2008		2009	
	US\$	% of total revenues	US\$	% of total revenues	US\$	% of total revenues
Revenues:						
Advertising service revenues	27,489,391	93.5	103,515,250	99.5	120,686,086	100.0
Advertising equipment revenues	1,896,200	6.5	565,392	0.5		
Total	29,385,591	100.0	104,080,642	100.0	120,686,086	100.0

**Advertising Service Revenues**

We derive the majority of our advertising service revenues from the sales of advertising time between the programs on our mobile digital television advertising network. Starting in 2007, we also generated some of our advertising service revenues from sales of advertising time on our mobile digital television advertising network in Beijing and our supplemental subway advertising platform in certain subway platforms and subway trains in Guangzhou and subway platforms in Shenzhen. Revenue from subway-related advertising sales in total accounted for 15.2% and 21.5% of our advertising service revenues in 2008 and 2009. Our advertising service revenues accounted for 93.5%, 99.5% and 100.0% of our total revenues for the years ended December 31, 2007, 2008 and 2009, respectively.

Our advertising service revenues are recorded net of any sales discounts from our official list prices that we may provide to our advertising clients. These discounts include volume discounts and other customary incentives offered to our advertising clients, including additional broadcast time for their advertisements if we have unused time available in a particular city and represent the difference between our official list price and the amount we charge our advertising clients. Our advertising clients include advertisers that directly engage in advertisement placements with us and advertising agencies retained by some advertisers to place advertisements on the advertiser's behalf. We expect that our advertising service revenues will become the primary source of our revenues for the foreseeable future.

We typically sign advertising contracts with our advertising clients that require us to place the advertisements on our network in specific cities for specified periods. We recognize revenues as the advertisement airs over the contractual term based on the schedule agreed upon with the customer.

**Factors that Affect Our Advertising Service Revenues**

**Advertising Time.** The total advertising time available across all of our cities determines our total capacity and affects our advertising service revenues. Any future expansion of our network or non-broadcast advertising platform into new cities will increase the total advertising time available across all of our cities and affect our advertising service revenues. Geographic expansion of our network or supplemental subway advertising platform also allows us to attract more advertising clients by providing greater geographic coverage and exposure.

Our ability to expand into new cities will affect the total advertising time available across our network and our supplemental subway advertising platform. Our management has implemented certain measures to facilitate our entrance into new markets. We maintain a special team of employees to focus on our network expansion efforts. In conjunction with the members of our management, this team consults with prospective partners to develop relationships, secure contractual agreements and assist in the deployment and maintenance of our network.

***Actual Price of Advertising Time.*** The price that we actually charge our clients for our advertising time directly affects our advertising service revenues. The listed prices for advertising time on our network and supplemental subway advertising platform vary significantly from city to city as income levels, standards of living and general economic conditions vary significantly from region to region in China. In accordance with standard industry practice, we offer discounts to our clients on an individual basis, so the actual price we charge for our advertising time after taking into account any discounts will affect our advertising service revenues.

**Table of Contents**

***Demand for advertising time on our network and supplemental subway advertising platform.*** The demand for our advertising time directly affects the actual price of our advertising time and is affected by a variety of factors, including general and economic conditions and certain special events that may cause significant changes in the number of riders in the mass transportation systems of our network cities. Special events, such as the 2010 Asian Games in Guangzhou, may affect our actual price of advertising time. Such special events may draw more viewers to our real-time broadcasts, making our advertising network more effective. Conversely, any adverse events, such as an outbreak of an airborne disease or public safety concerns, may impact usage of mass transportation systems and have an adverse effect on our actual price of advertising time. Demand for our advertising services also varies according to the time of day, with higher demand typically during morning and evening commute times. Demand for advertising time on our network may also be impacted by corresponding demand on other advertising outlets such as traditional television.

***Number of displays in each city.*** The number of displays in each of our cities affects our actual price of advertising time in that city. An increase in the number of displays will reach a larger audience and make advertisements more effective. We expect that our actual price of advertising time will increase as the number of displays increases.

***Quality of programs.*** The quality of the programs broadcast on our network and supplemental subway advertising platform affects our actual price of advertising time. Programs that attract the attention of our audience will make our advertising platform more effective. Our ability to locate, edit and provide suitable programs that appeal to our intended audience will affect our actual price of advertising time. We have undertaken steps to increase the quality of programs broadcast on our network by providing suggestions to the local television stations that provide the programs.

***Programming to Advertising Ratio.*** The mixture of programming to advertising that gets broadcasted on our network and supplemental subway advertising platform affects our advertising service revenues. Broadcasting an optimal mix of advertising and programs will maximize our total revenues.

***Maximizing sales of soft advertisements.*** We began sales of soft advertising in July 2007, and our ability to maximize sales of soft advertisements such as advertisements embedded within the programs and sponsorships of the programs on our network will allow us to realize additional revenues from the time reserved for broadcasts of programs. Increasing our sales of such advertisements is expected to help increase our average revenue per hour.

***Advertising Equipment Revenues***

We derive a portion of our total revenues from the sales of digital television displays and related equipment to our direct investment entities. We record these revenues as advertising equipment revenues. We source digital television displays and related equipment from third-party suppliers and sell them to our direct investment entities in order to ensure consistent quality of the equipment used in our network and achieve cost efficiency for our direct investment entities. Our advertising equipment revenues represented 6.5%, 0.5% and nil of our total revenues for the years ended December 31, 2007, 2008 and 2009, respectively. We generally set the price of our advertising equipment at the unit procurement cost plus an additional markup. Since sales of equipment in China require the payment of the value added tax, or VAT, equal to 17%, we record our advertising equipment revenues excluding the VAT payments. We expect that advertising equipment revenues in future periods will decrease as a percentage of our total revenues because we expect our advertising service revenues to grow faster than our advertising equipment revenues.

**Table of Contents**

We recognize advertising equipment revenues upon delivery of the digital television displays and when the risk of ownership has passed to our direct investment entities.

**Factors that Affect Our Advertising Equipment Revenues**

**Addition of New Direct Investment Entities.** The addition of new direct investment entities directly affects our advertising equipment revenues. We only sell our digital television displays to our direct investment entities for installation into buses of the city's mass transportation system and other locations. We anticipate higher sales of our digital television displays in the earlier stages of the direct investment entity's operations during the expansion of the mobile digital television network in that city. Accordingly, as the operations of our direct investment entities reach a greater scale, we expect the sales of our digital television displays to decrease.

**Network Expansion of Direct Investment Entities.** The pace of network expansion at each of our direct investment entities directly affects our advertising equipment revenues. Since the vast majority of our direct investment entities purchase the digital television displays exclusively from us, any expansion of the mobile digital television network will generate advertising equipment revenues for us. In addition, our direct investment entities will need to purchase new digital television displays from us to replace their worn or obsolete equipment.

**Cost of Equipment.** Since we sell our digital television displays at our procurement cost plus a fixed percentage markup, any changes to the cost of our equipment will directly affect our advertising equipment revenues.

**Cost of Revenues**

Our cost of revenues consists of costs directly related to the offering of our advertising services and costs related to our sales of advertising equipment. The following table sets forth our cost of revenues, divided into its major components, by amount and percentage of our total revenues for the periods indicated.

	For the year ended December 31,					
	2007		2008		2009	
	US\$	% of total revenues	US\$	% of total revenues	US\$	% of total revenues
Total Revenues	29,385,591	100.0	104,080,642	100.0	120,686,086	100.0
Cost of revenues:						
Advertising service cost	12,801,957	43.6	40,602,022	39.0	61,104,381	50.6
Advertising equipment cost	1,583,325	5.4	475,432	0.5		
Total cost of revenues	14,385,282	49.0	41,077,454	39.5	61,104,381	50.6
Gross profit	15,000,309	51.0	63,003,188	60.5	59,581,705	49.4

**Advertising Service Cost**

Our cost of revenues related to the offering of our advertising services consists of media costs, depreciation, business taxes and surcharges and other operating costs.

**Media Costs.** Our media costs represented the largest component of our cost of revenues and accounted for approximately 37.2%, 29.7% and 41.4% of our total revenues for the years ended December 31, 2007, 2008 and 2009, respectively. Our media costs primarily consist of:

network rental fee payments to our exclusive agency partner companies under our contractual arrangements to purchase the advertising time on that network;



**Table of Contents**

payments to our direct investment entities under our contractual arrangements to purchase advertising time;  
and

payments to mobile digital television companies and other advertising service providers outside of our network, either directly or through third-party advertising agencies, to purchase advertising time pursuant to the requests of our advertisers.

The primary factors affecting our media costs include the number of exclusive agency cities that we have and the amount of advertising time that we purchase from our direct investment entities and other mobile digital television companies outside of our network.

The number of exclusive agency cities represents the largest factor affecting our media costs. When we enter into an exclusive agency arrangement with a mobile digital television company, we typically commit to a pre-determined annual network rental fee in exchange for the exclusive right to place advertisements on all of the time available for advertisements on that network. We expect the number of our exclusive agency cities to increase in future periods as we enter into exclusive agency arrangements with our direct investment entities and with additional mobile digital television companies in new cities. As a result, we expect our network rental fees to increase in future periods.

The amount of advertising time that we purchase from our direct investment entities and other mobile digital television companies outside of our network also affect our media costs. For our direct investment entities without exclusive agency agreements, we purchase advertising time according to our needs to place advertisements on behalf of our clients. For the mobile digital television companies and other advertising service providers outside of our network, we purchase time at the request of our advertising clients to place advertisements in that city.

**Depreciation.** Depreciation for our digital television displays accounted for 0.7%, 1.2% and 1.5% of our total revenues for the years ended December 31, 2007, 2008 and 2009, respectively. Our depreciation cost only consists of depreciation for the displays directly owned by us and not the displays owned by our direct investment entities. Generally, we capitalize the acquisition cost of our digital television displays and recognize depreciation on a straight-line basis over the term of their useful lives, which we estimate to be five years. The primary factors affecting our depreciation include the number of digital television displays in our network, the unit cost of each of our displays and the remaining useful life of our displays. We expect our depreciation to increase in future periods as a result of expanding our network by adding more displays.

**Business Taxes and Surcharges.** Our business taxes and surcharges accounted for 4.0%, 6.0% and 5.6% of our total revenues for years ended December 31, 2007, 2008 and 2009, respectively. Business taxes and surcharges include the 5% business tax and 3% surcharges that our PRC operating subsidiary must pay for revenues earned from advertising services provided in China.

**Other Operating Costs.** Our other operating costs primarily consist of salaries and other expenses in relation to the maintenance, development and expansion of our network and accounted for 1.7%, 2.1% and 2.2% of our total revenues for the years ended December 31, 2007, 2008 and 2009, respectively. We expect our other operating costs to increase in future periods as we expand our network in the cities where we already operate and into new cities. However, we expect our other operating costs to increase in future periods but remain a relatively small percentage of total revenues.

**Advertising Equipment Cost**

Our advertising equipment cost consists of the amounts we pay to our third-party suppliers for the digital television displays and other related equipment that we sell to our direct investment entities. Our advertising equipment cost accounted for 5.4%, 0.5% and nil of our total revenues for the years ended December 31, 2007, 2008 and 2009, respectively. The major factors affecting our advertising equipment cost include the number of digital television displays we sell and the unit cost that we pay for the assembly of each display. We did not generate advertising equipment revenues in 2009 as our existing direct investment entities completed the initial expansion of their local networks in 2008 and scaled back their purchases of digital television displays and related equipment from us.



**Table of Contents****Other Factors Affecting Our Results of Operations**

In addition to the factors discussed above, our reported results are also affected by the fluctuations in the value of the Renminbi against the U.S. dollar because our reporting currency is the U.S. dollar while the functional currency of our subsidiary and affiliated consolidated entities in China, which operate substantially all of our business, is the Renminbi. In 2007 and 2008, the Renminbi appreciated against the U.S. dollar by approximately 6.5% and 6.5%, respectively, and in 2009, the Renminbi depreciated against the U.S. dollar by approximately 0.1%. The appreciation of the Renminbi against the U.S. dollar contributed to the increase in our net income reported in U.S. dollar terms in 2007, 2008 and 2009, respectively. For additional information relating to the fluctuations in the value of the Renminbi against the U.S. dollar, see Item 3. Key Information A. Selected Financial Data Exchange Rate Information, Item 3. Key Information D. Risk Factors Risks Related to Doing Business in China Fluctuations in exchange rates of the Renminbi could materially affect our reported results of operations and Item 11. Quantitative and Qualitative Disclosures About Market Risk Foreign Exchange Risk.

**Operating Expenses**

Our operating expenses consist of selling and marketing expenses and general and administrative expenses. The following table sets forth our operating expenses, divided into their major categories by amount and as a percentage of total revenues for the periods indicated.

	For the year ended December 31,					
	2007		2008		2009	
	US\$	% of total revenues	US\$	% of total revenues	US\$	% of total revenues
Total Revenues	29,385,591	100.0	104,080,642	100.0	120,686,086	100.0
Gross profit	15,000,309	51.0	63,003,188	60.5	59,581,705	49.4
Operating expenses:						
Selling and marketing	2,149,067	7.4	14,711,536	14.1	24,620,897	20.4
General and administrative	2,949,509	10.0	5,414,571	5.2	7,425,222	6.2
Total operating expenses	5,098,576	17.4	20,126,107	19.3	32,046,119	26.6

**Selling and Marketing.** Our selling and marketing expenses primarily consist of salaries and benefits for our sales staff, marketing and promotional expenses and other costs related to supporting our sales force. Selling and marketing expenses accounted for 7.4%, 14.1% and 20.4% of our total revenues for the years ended December 31, 2007, 2008 and 2009, respectively. We increased our sales force to 368 employees as of December 31, 2009 from 300 employees as of December 31, 2008 and 120 employees as of December 31, 2007. The increase in the scale and scope of our sales force activities has resulted in a significant increase in selling and marketing expenses. We expect selling and marketing expenses in future periods to increase as our operations continue to grow.

**General and Administrative.** Our general and administrative expenses primarily consist of salaries and benefits for management, accounting and administrative personnel, office rentals, depreciation of office equipment, professional service fees, maintenance, utilities and other office expenses. General and administrative expenses accounted for 10.0%, 5.2% and 6.2% of our total revenues for the years ended December 31, 2007, 2008 and 2009, respectively. We expect that our general and administrative expenses will increase in future periods as we hire additional personnel and incur additional costs in connection with the expansion of our business and with being a publicly traded company.

**Government Grants and Subsidies**

VisionChina Media Group, an operating entity of our company, was granted US\$0.7 million in 2008 as a reward because we consummated our initial public offering. It was a one-off incentive from the PRC local government in Shenzhen, which allows any company in Shenzhen that has consummated an initial public offering in 2007 to apply

for such incentive. We took the initiative to apply for this incentive after completing our initial public offering in 2007. Our application was approved, and we received this incentive from the PRC government in 2008.

In 2009, VisionChina Media Group, an operating entity of our company, received a government grant of US\$0.5 million because it qualified as a cultural enterprise in the PRC. Any company that is recognized as a cultural enterprise by the local government authorities is qualified to apply for certain incentives granted by the local government. As VisionChina Media Group is recognized as a cultural enterprise by the local government authorities, it is qualified to apply for this incentive. We took the initiative to apply for this incentive by submitting an application to the local government authorities for review. The local government authorities recognized VisionChina Media Group as a cultural enterprise and concluded that it is qualified to receive this incentive in 2009.

In the future, we expect to receive government grants and incentives from time to time. If we believe any of our group entities meet the criteria to receive government grants or incentives, we plan to take the initiative to apply. However, the receipt of any incentive or grant is subject to review and approval by the relevant government authorities.

### **Share-based Compensation**

Our share-based compensation expenses represent the compensation expenses recognized in relation to the share options and other stock awards granted to our employees and consultants. We allocate our share-based compensation expenses to cost of revenues, general and administrative expenses or selling and marketing expenses, depending on role of the person receiving the options under our 2006 Share Incentive Plan, or the 2006 Plan. We have reserved 8,000,000 common shares for issuance under the 2006 Plan. As of December 31, 2009, there were 2,399,658 share options and 90,723 restricted shares outstanding to employees and consultants. Our total share-based compensation expenses accounted for 0.8%, 1.4% and 3.6% of our total revenues for the years ended December 31, 2007, 2008 and 2009, respectively. We expect our share-based compensation expenses to increase in future periods as a result of further issuances of options and restricted shares to employees and consultants.

**Table of Contents****Loss from Equity Method Investees**

Our equity investments primarily consist of our investments in our nine direct investment entities that we account for using the equity method as of December 31, 2009. We expect our loss from our existing equity method investees to decrease as they finish building their networks and begin generating more revenues.

We generate advertising service revenues by sales of advertising time on our mobile digital television advertising network, which are partly provided by our equity method investees. We also closely monitor the operating activities of the equity method investees financially. As the operations of our equity method investees form an integral part to our operating activities, our share of undistributed earnings or losses of these entities are classified as part of our operating income.

**Taxation**

We are an exempted company incorporated in the Cayman Islands and conduct substantially all of our business through our PRC subsidiaries and our PRC variable interest entities. Our PRC entities must pay business taxes and surcharges on revenues generated from advertising services and value added taxes on sales of our advertising equipment, and we account for the business taxes and surcharges under cost of revenues. Our PRC entities must also pay the enterprise income tax, or EIT, on their taxable income at the applicable tax rate, except for certain PRC entities that qualify for preferential tax rates.

Before the new EIT Law and its implementation regulations became effective on January 1, 2008, as an enterprise located in the Shenzhen Special Economic Zone, both VisionChina Media Group and CDTC were allowed to enjoy a preferential enterprise income tax rate of 15%. In addition, since VisionChina Media Group has been recognized as a culture enterprise, VisionChina Media Group received a full exemption from the EIT from 2006 to 2008. Preferential tax treatments will continue to be granted to industries and projects that are strongly supported and encouraged by the state, and enterprises otherwise classified as new and high technology enterprises strongly supported by the state will be entitled to a 15% enterprise income tax rate. VisionChina Media Group was designated as new and high technology enterprises strongly supported by the state in November 2008 and, as a result, will be subject to an enterprise income tax rate of 15% for 2009 and 2010. One of our operating subsidiaries in Luzhou in Sichuan province was recognized as a local government encouraged company and is entitled to exemption from the enterprise income tax for the years ended December 31, 2008 and 2009.

Under the new EIT Law, effective since January 1, 2008, China has adopted a uniform tax rate of 25% for all enterprises (including foreign-invested enterprises) and revoked the current tax exemption, reduction and preferential treatments applicable to foreign-invested enterprises. However, there will be a transition period for enterprises, whether foreign-invested or domestic, that are currently receiving preferential tax treatments granted by relevant tax authorities. Enterprises that were subject to an enterprise income tax rate lower than 25% prior to January 1, 2008 may continue to enjoy the lower rate and gradually transition to the new tax rate within five years after the effective date of the EIT Law. Enterprises that are currently entitled to exemptions or reductions from the standard income tax rate for a fixed term may continue to enjoy such treatment until the fixed term expires. However, if a foreign-invested enterprise had not become profitable by the end of December 2007, a two-year exemption from enterprise income tax will be granted for the period between the time the enterprise becomes profitable and December 31, 2009. According to the implementation regulations, during the transition period, the enterprise income tax rate of CDTC is 18%, 20%, 22%, 24% and 25% in the years of 2008, 2009, 2010, 2011 and 2012, respectively, and the enterprise income tax rate of VisionChina Media Group is 0%, 15%, 15%, 24% and 25% in the years of 2008, 2009, 2010, 2011 and 2012, respectively. As a result, we expect our income tax expense to increase in future years compared to our historical periods.

**Table of Contents**

The EIT Law also provides that enterprises established outside of China whose de facto management bodies are located in China are considered resident enterprises, and will generally be subject to the uniform 25% enterprise income tax rate as to their worldwide income, including income received from subsidiaries and consolidated affiliates. Under the Implementation Rules of the PRC Enterprise Income Tax Law, a de facto management body is defined as a body that has material and overall management and control over manufacturing and business operations, personnel and human resources, finances and treasury, and acquisition and disposition of properties and other assets of an enterprise. If we are treated as a resident enterprise for PRC tax purposes, we will be subject to PRC tax on our worldwide income at the 25% tax rate, which would have an impact on our effective tax rate.

Furthermore, unlike the Income Tax Law for Enterprises with Foreign Investment and Foreign Enterprises that was replaced by the EIT Law, which specifically exempts withholding tax on any dividends payable to non-PRC investors, the EIT Law and implementation regulations provides that an income tax rate of 10% is normally applicable to dividends payable to non-PRC investors which are derived from sources within China, although such income tax may be exempted or reduced by the State Council of the PRC or pursuant to a tax treaty between China and the jurisdictions in which our non-PRC shareholders reside. We are a Cayman Islands holding company and substantially all of our income may be derived from dividends we receive from our operating subsidiary and consolidated affiliates established in China. If we declare dividends from such income, it may be deemed to be derived from sources within China under the EIT Law and be subject to income tax under the EIT Law. If we are required under the EIT Law to pay income tax for any dividends we received from our subsidiary in China, your investment in us may be materially and adversely affected. However, as we plan to retain and reinvest our earnings to further expand our business in the PRC, our subsidiary in China does not have plans to declare dividends in the foreseeable future. In addition, it is unclear whether dividends paid to our non-PRC shareholders and ADS holders or any capital gains from the transfer of our common shares or ADSs, would be treated as income derived from sources within the PRC and subject to PRC tax. If we are required under the EIT Law to withhold PRC income tax on dividends payable to our non-PRC investors that are non-resident enterprises or if you are required to pay PRC income tax on the transfer of our common shares or ADSs, the value of your investment may be materially and adversely affected.

**Critical Accounting Policies**

We prepare our consolidated financial statements in accordance with U.S. GAAP, which requires us to make judgments, estimates and assumptions that affect: (i) the reported amounts of our assets and liabilities; (ii) the disclosure of our contingent assets and liabilities at the end of each reporting period; and (iii) the reported amounts of revenues and expenses during each reporting period. We continually evaluate these estimates based on our own historical experience, knowledge and assessment of current business and other conditions, our expectations regarding the future based on available information and reasonable assumptions, which together form our basis for making judgments about matters that are not readily apparent from other sources. Since the use of estimates is an integral component of the financial reporting process, our actual results could differ from those estimates.

We believe that any reasonable deviation from those judgments and estimates would not have a material impact on our financial condition or results of operations. To the extent that the estimates used differ from actual results, however, adjustments to the statement of operations and corresponding balance sheet accounts would be necessary. These adjustments would be made in future financial statements.

When reading our financial statements, you should consider: (i) our critical accounting policies; (ii) the judgment and other uncertainties affecting the application of such policies; and (iii) the sensitivity of reported results to changes in conditions and assumptions. We believe the following accounting policies involve the most significant judgment and estimates used in the preparation of our financial statements.

**Depreciation of fixed assets**

Fixed assets are carried at cost less accumulated depreciation and amortization. Assembly in progress is not depreciated until it is ready for its intended use.

## **Table of Contents**

Depreciation and amortization is computed on a straight-line basis over the following estimated useful lives, after taking into account the residual values:

Media display equipment 5 years

Computers and office equipment 5 years

Motor vehicles 5 years

Leasehold improvements lesser of lease terms or the estimated useful lives of the assets

Changes in estimation of useful lives and residual values may have impact on the amount of depreciation expense to be charged to the consolidated statement of operations.

### ***Investments under equity method***

The investments for which we have the ability to exercise significant influence are accounted for using the equity method. Under the equity method, original investments are recorded at cost and adjusted by our share of undistributed earnings or losses of these entities, by the amortization of intangible assets recognized upon purchase price allocation and by dividend distributions or subsequent investments. All unrecognized inter-company profits and losses have been eliminated under the equity method.

We generate a portion of our revenues from sales of advertising time on mobile television networks which are owned by our equity method investees. Because the operations of our investees under equity method form an integral part to our operating activities, our share of undistributed earnings or losses of these entities is classified as part of our operating income.

When the estimated amount to be realized from the investments falls below their carrying value, an impairment charge is recognized in the consolidated statements of operations when the decline in value is considered other than temporary.

### ***Other investments***

Our investments in non-marketable equity securities for which we do not have the ability to exercise significant influence or control are accounted for using the cost method. Dividends and other distributions of earnings from investees, if any, are included in income when declared. We periodically evaluate the carrying value of investments accounted for under the cost method of accounting and any impairment is included in the consolidated statements of operations.

### ***Goodwill and Intangible Assets***

We carry intangible assets, which consist of customer base, non-competition agreements and patents, at cost less accumulated amortization. Amortization is calculated using the straight-line method over the estimated economic life of the intangible assets. The expected useful lives of the customer base are five years, the expected useful lives of the non-competition agreements are ten years and the expected useful life of patents are ten years. Changes in the estimation of useful lives of the intangible assets may have impact on the amortization expenses to be charged to the consolidated statement of operations.

We estimated fair value of the identifiable intangible assets acquired on the date of acquisition, which primarily consisted of a customer base and non-competition agreements. When the additional considerations payable in connection with the acquisitions are determined, the excess of amounts paid for acquisitions over the fair market value of the net identifiable assets acquired are allocated to goodwill.

The determination of the fair value of any intangible assets involves certain judgments and estimates, including, but are not limited to, the cash flows that an asset is expected to generate in the future. For a customer base, the fair value was based on the excess earnings which take into consideration the projected cash flows to be generated from the customer base. Future cash flows are estimated based on the net income forecast of the customer base, which takes into consideration historical customer attrition and revenue growth. The resulting cash flows are then discounted at our estimated weighted average cost of capital. For a non-compete agreement, the fair value was determined using a with or without approach, which calculates the difference between projected cash flows with and without the non-competition agreement.





**Table of Contents**

We are required to review our amortizable intangible assets for impairment when events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. We assess recoverability of the amortizable intangible assets by comparing the carrying value of an asset to estimated undiscounted cash flows expected to result from the use of the asset and their eventual disposition. If we determine that the carrying value of acquired intangible assets have been impaired, the carrying value will be written down to fair value at the measurement date and impairment charges will be recorded.

Goodwill represents the excess of the purchase price over the fair value of the identifiable net assets acquired. Goodwill is not amortized but is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired.

We assess goodwill for impairment in accordance with FASB ASC 350, Intangibles – Goodwill and Other (formerly Statement of Financial Accounting Standard, or SFAS, No. 142, Goodwill and Other Intangible Assets), which requires that goodwill be tested for impairment at the reporting unit level at least annually and more frequently upon the occurrence of certain events, as defined by FASB ASC 350. Goodwill of each unit is tested for impairment in the annual impairment tests using the two-step process. First, we review the carrying amount of the reporting unit compared to the fair value of the reporting unit. If the fair value of the reporting unit exceeds its carrying amount, goodwill is not considered to be impaired and the second step is not required. If the carrying amount of a reporting unit exceeds its fair value, the second step compares the implied fair value of goodwill to the carrying value of the reporting unit's goodwill. The implied fair value of goodwill is determined in a manner similar to accounting for a business combination with allocation of the assessed fair value determined in the first step to the assets and liabilities of the reporting unit. The excess of the fair value of the reporting unit over the amounts assigned to the assets and liabilities is the implied fair value of goodwill. This allocation process is only performed for the purpose of evaluating goodwill impairment and does not result in an entry to implied fair value of goodwill. We estimate the fair value of our reporting units using a discounted cash flow methodology. This valuation technique is based on a number of estimates and assumptions, including the projected operating results of the reporting units, discounted rate, long-term growth rate and appropriate market comparables. We performed an annual goodwill impairment test for our reporting unit as of December 31, 2009, and no impairment loss was required. The estimates and assumptions used for determination of the fair value of the reporting units include estimated future cash flows, discount rates and other assumptions. Changes in these estimates and assumptions could materially affect the determination of fair value for each reporting unit. Any impairment charges recorded could have a material impact on our financial condition and results of operations.

***Income taxes***

We recognize deferred income taxes for temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements, net operating loss carry forwards and credits by applying enacted statutory tax rates applicable to future years.

We record a valuation allowance to reduce deferred tax assets to the value we believe is more likely than not to be realized. In the event we were to determine that we would be able to realize our deferred tax assets in the future in excess of their recorded amount, an adjustment to our valuation allowance would increase our income in the period such determination was made. Likewise, if we determine that we would not be able to realize all or part of our net deferred tax assets in the future, an adjustment to our valuation allowance would be charged to our income in the period such determination is made. Current income taxes are provided for in accordance with the laws of the relevant taxing authorities.

As none of our PRC subsidiaries and consolidated affiliated entities intend to declare dividends, their undistributed earnings are considered indefinitely reinvested and therefore no provisions have been made for PRC dividend withholding taxes.

***Share-based compensation***

On December 8, 2006, we adopted the 2006 share incentive plan that allows us to offer a variety of incentive awards to our employees and consultants. For options granted to employees, share-based payments are measured based on the fair values of share options on the grant date and are generally recognized as compensation expense over the requisite service periods with a corresponding addition to paid-in capital. Share awards issued to consultants are

measured at fair value at the commitment date and recognized over the period the service is provided.

**Table of Contents**

For options granted on July 6, 2007, August 30, 2007 and October 31, 2007, the fair value of our common shares used in determining the fair value of the options is the per share value of our common shares determined by us, with the assistance of an independent third-party valuation specialist, solely for the purpose of financial accounting for employee share-based compensation. Determining the fair value of our common shares underlying these options required us to make complex and subjective judgments regarding projected financial and operating results, our unique business risks, the liquidity of our shares and our operating history and prospects at the time of grant. We used the income approach in conjunction with the market value approach by assigning a different weight to each of the approaches to estimate the enterprise value of our company when the option was granted. The income approach involves applying appropriate discount rates to estimated cash flows that are based on earnings forecasts. The assumptions used in deriving the fair value of our company are consistent with our business plan. These assumptions include: no material changes in the existing political, legal, fiscal and economic conditions in China; our ability to recruit and retain competent management, key personnel and technical staff to support our ongoing operation; and no material deviation in industry trends and market conditions from economic forecasts. These assumptions are inherently uncertain. The risks associated with achieving our forecasts were assessed in selecting the appropriate discount rates. If different discount rates had been used, the valuations would have been different and the amount of share-based compensation would also have been different because the fair value of the underlying common shares for the options granted would be different.

For share options granted on July 6, 2007, August 30, 2007 and October 31, 2007, we used a combination of the income approach, also known as the discounted cash flow, or DCF, approach, and the market approach to assess the fair value of our common shares underlying the options granted on a contemporaneous basis.

The major assumptions used by us in calculating the fair value of common shares were as follows:

**Weight of DCF and market multiples:** We assigned 70% weight to the DCF approach and 30% weight to the market multiples approach because we had achieved visibility of future earnings at the time, which made the DCF approach more meaningful.

**Weighted average costs of capital, or WACC:** We used an estimated WACC of 25% for the July 6, 2007 and August 30, 2007 grants and 20% for the October 31, 2007 grants, which was the combined result of the risk-free rate and our company-specific risk when we continued to grow and meet important milestones.

**Capital market valuation multiples:** We obtained and assessed the then updated capital market valuation data of comparable Chinese and international advertising companies such as Focus Media Holding Limited, Clear Channel Outdoor Holdings Inc., JC Decaux SA, Primedia Limited, Clear Media and Xinhua Finance Media Limited.

**Discount for lack of marketability:** We used a 5% discount rate for the July 6, 2007 and August 30, 2007 grants and 3% for October 31, 2007 grants for lack of marketability of our common shares.

For options granted on July 6, 2007, August 30, 2007 and October 31, 2007, we used the option-pricing method to allocate equity value to the preferred and the common shares, taking into account the guidance prescribed by the AICPA Audit and Accounting Practice Aid Valuation of Privately-Held-Company Equity Securities Issued as Compensation. The option-pricing method involves making estimates of the anticipated timing of a potential liquidity event such as a sale of our company or an initial public offering and estimates of the volatility of our equity securities. The anticipated timing is based on the plans of our board and management. Estimating the volatility of the share price of a privately held company is complex because there is no readily available market for the shares. We estimated the volatility of our shares to range from 31.4% to 36.1%. Had we used different estimates of volatility, the allocations between preferred and common shares would have been different.

For the options granted in April and May 2007, management performed valuation to assess the fair value of our common shares underlying the options granted based on the price of the Series B preferred shares that we issued and sold to third parties for cash in March 2007. Series B preferred shares were issued to several institutional investors in March 2007 for cash at a price determined based on the agreed enterprise value of our company. As the transaction

was carried out between unrelated parties at arm's length basis, we believe that the negotiated equity value represents the fair enterprise value of our company. We used an option-pricing model to allocate the total enterprise value of our company to preferred and common shares.

**Table of Contents**

For the options granted in 2008 and 2009, we determined the value of the shares underlying the options by referring to the sale prices of our ADSs on the Nasdaq Global Market.

We account for stock-based compensation in accordance with FASB ASC 718, Compensation – Stock Compensation (formerly SFAS No. 123R, Share-Based Payment). Under the provisions of FASB ASC 718, stock-based compensation cost is estimated at the grant date based on the award's fair value as calculated by the Black-Scholes-Merton, or BSM, option-pricing model and is recognized as expense over the requisite service period. The BSM model requires various highly judgmental assumptions including volatility and expected option life. If any of the assumptions used in the BSM model change significantly, stock-based compensation expense may differ materially in the future from that recorded in the current period. In addition, we are required to estimate the expected forfeiture rate and only recognize expense for those options expected to vest. These estimations are based on past employee retention rates and our expectations of future retention rates. As our operating history is limited, we will prospectively revise our forfeiture rates based on actual history. Further, to the extent our actual forfeiture rate is different from our estimate, stock-based compensation expense is adjusted accordingly.

***Allowance for doubtful accounts***

We evaluate the recoverability of our account receivables primarily based on the ages of receivables and factors surrounding the credit risks of specific customers. We regularly analyze our customer accounts, and when we become aware of a specific customer's inability to meet its financial obligations to us, such as in the case of bankruptcy filings or deterioration in the customer's operating results or financial positions, we record a reserve for bad debts to reduce the related receivables to the amount we reasonably believe is collectible. If circumstances related to specific customers change, our estimates of the recoverability of receivables will be further adjusted. In the event that our accounts receivables become uncollectible, we record additional adjustments to receivables to reflect the amounts at net realizable value. We had allowance for doubtful debt of US\$0.6 million and US\$1.2 million as of December 31, 2008 and 2009 respectively. We had made additional allowance for doubtful debt of US\$0.6 million and US\$0.6 million in 2008 and 2009 respectively, both representing less than 1% as a percentage to our total revenue. We assess allowance for doubtful debts based on our review of aging data and credit risks of specific customers. We had charged off account receivables of nil and US\$60,798 in 2008 and 2009 respectively as we had exhausted all means of collection. We believe that the balance allowance for doubtful account receivables is sufficient to reflect the recoverability of our accounts receivable. We do not expect the allowance for doubtful accounts, which is charged to our statement of operations, to increase significantly as a percentage of our total revenue in future years. We also do not expect our allowance for doubtful accounts to have a significant impact on our liquidity and capital resources.

**Results of Operations**

The following table sets forth a summary, for the periods indicated, of our consolidated results of operations. Our historical results presented below are not necessarily indicative of the results that may be expected for any future period.

	<b>For the Year Ended December 31,</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<b>(US\$, except number of shares)</b>		
<b>Condensed Consolidated Statement of Operations Data</b>			
<b>Revenues</b>			
Advertising service revenues	27,489,391	103,515,250	120,686,086
Advertising equipment revenues	1,896,200	565,392	
<b>Total revenues</b>	<b>29,385,591</b>	<b>104,080,642</b>	<b>120,686,086</b>
<b>Cost of revenues</b>			
Advertising service cost	12,801,957	40,602,022	61,104,381
Advertising equipment cost	1,583,325	475,432	

Edgar Filing: VISIONCHINA MEDIA INC. - Form 20-F/A

Total cost of revenues	14,385,282	41,077,454	61,104,381
Gross profit	15,000,309	63,003,188	59,581,705
Operating expenses	5,098,576	20,126,107	32,046,119

64

---

**Table of Contents**

	<b>For the Year Ended December 31,</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<b>(US\$, except number of shares)</b>		
Government grant			538,085
Loss from equity method investees	(1,262,273)	(484,969)	(998,606)
Operating profit	8,639,460	42,392,112	27,075,065
Interest income	505,888	3,480,212	1,860,017
Interest expenses			(109,590)
Government grant		672,515	
Other expenses	(95,719)	(38,491)	(1,278)
Net income before income taxes	9,049,629	46,506,348	28,824,214
Income tax benefits (expenses)	332,386	212,325	(2,348,254)
Net income after income taxes	9,382,015	46,718,673	26,475,960
Net loss attributable to non-controlling interest	11,343	91,277	127,043
Net income attributable to VisionChina Media Inc. shareholders	9,393,358	46,809,950	26,603,003
Deemed dividend on convertible redeemable preferred shares	6,625,262		
Net income attributable to holders of common shares	2,768,096	46,809,950	26,603,003
Net income per common share:			
Basic	0.11	0.67	0.37
Diluted	0.11	0.65	0.37
Shares used in computation of net income per share:			
Basic	24,709,522	70,064,663	71,686,900
Diluted	25,771,702	72,404,916	72,676,438
Share-based compensation expenses during the related periods included in:			
Cost of revenues	34,431	39,847	63,477
Selling and marketing expenses	135,722	1,163,623	3,698,329
General and administrative expenses	51,209	263,585	570,305

**Year Ended December 31, 2009 Compared to Year Ended December 31, 2008**

**Total Revenues.** Our total revenues increased to US\$120.7 million in 2009 from US\$104.1 million in 2008.

Our advertising service revenues increased to US\$120.7 million in 2009 from US\$103.5 million in 2008. We experienced an increase in advertising service revenues primarily as a result of increased sales of advertising time on our mobile digital television advertising network achieved by the expansions of our strong sales and advertising networks in 2009 and acquisitions of six advertising agency businesses in 2008. In 2009, we expanded our operations to include additional advertising time on buses in Hangzhou, Tianjin, Suzhou and Xiamen and additional subway advertising time in Beijing. The six advertising agency businesses we acquired in 2008 contributed to 56% and 53% of our total revenues in 2008 and 2009, respectively.

We did not generate any advertising equipment revenues in 2009, compared with US\$0.6 million in 2008, as our existing direct investment entities completed the initial expansion of their local networks and scaled back their purchases of digital television displays and related equipment from us.





**Table of Contents**

**Cost of Revenues.** Our cost of revenues increased significantly to US\$61.1 million in 2009 from US\$41.1 million in 2008.

Our advertising service cost increased significantly to US\$61.1 million in 2009 from US\$40.6 million in 2008. Our media cost increased to US\$49.9 million in 2009 from US\$30.9 million in 2008. We experienced an increase in media cost primarily due to a large increase in the amount of network rental fees paid to our exclusive agency partner companies to secure advertising time. Our network rental fees for our exclusive agency cities increased to US\$43.3 million in 2009 from US\$28.0 million in 2008. The number of cities operating under our exclusive agency model increased to 16 cities as of December 31, 2009 from 12 cities as of December 31, 2008. To a lesser extent, we also attribute the increase in our media cost to increased demand for advertising time in cities operating under our direct investment and outreach agency models that require us to purchase the advertising time from the local mobile digital television network operating in that city. We also attribute a portion of the increase in our media cost to the annual increase in the amount of network rental fees under the terms of our contracts with our exclusive agency partner companies in our existing cities.

Our depreciation increased to US\$1.8 million in 2009 from US\$1.2 million in 2008 as a result of the increase in the number of digital television displays located in our exclusive agency cities.

Our business tax increased to US\$6.8 million in 2009 from US\$6.3 million in 2008 as a result of the increase in our revenues.

Our other operating costs include salaries and expenses related to installation and maintenance of the displays in our network and increased to US\$2.7 million in 2009 from US\$2.2 million in 2008, primarily due to the expansion of our network into new cities and also in the cities where we already operated.

**Gross Profit.** As a result of the foregoing, our gross profit was US\$59.6 million in 2009 compared to US\$63.0 million in 2008. Our gross margin decreased to 49.4% in 2009 from 60.5% in 2008. Our gross margin decreased primarily due to the general increase in media costs as we expanded our media network.

**Operating Expenses.** Our operating expenses increased to US\$32.0 million in 2009 from US\$20.1 million in 2008.

**Selling and Marketing.** Selling and marketing expenses increased to US\$24.6 million in 2009 from US\$14.7 million in 2008. Our selling and marketing expenses increased mainly due to expansion of our sales force and strengthening its sales capabilities, and the overall increase in sales activities in a challenging market environment in 2009. The number of our selling and marketing employees increased to 368 as of December 31, 2009 from 300 as of December 31, 2008.

**General and Administrative.** General and administrative expenses increased to US\$7.4 million in 2009 from US\$5.4 million in 2008. Our general and administrative expenses increased mainly due to the increase in the size of our administrative staff and infrastructure to support our growing operations.

**Loss from Equity Method Investees.** Our loss from equity method investees increased to US\$1.0 million in 2009 from US\$0.5 million in 2008. We experienced an increase in our loss from equity method investees as a result of further media network development costs and challenging sales environments for certain of our equity joint-venture entities in 2009.

**Operating Profit.** As a result of the foregoing, our operating profit amounted to US\$27.1 million in 2009 as compared to US\$42.4 million in 2008.

**Interest Income.** Our interest income decreased to US\$1.9 million in 2009 from US\$3.5 million in 2008, primarily as a result of a decrease in our cash and cash equivalent balances, which were primarily used by our investing activities in 2009.

**Table of Contents**

**Income Taxes.** We recognized an income tax expense of US\$2.3 million in 2009, compared to an income tax benefit of US\$0.2 million in 2008. The income tax expense was primarily due to the expiration of the tax exemption of our principal operating entity in China.

**Net loss attributable to non-controlling interest.** Our net loss attributable to non-controlling interest increased to US\$0.13 million in 2009 from US\$0.09 million in 2008, primarily as the result of an increase in net loss of a subsidiary.

**Net Income Attributable to VisionChina Media Inc. Shareholders.** As a result of the foregoing, our net income amounted to US\$26.6 million in 2009 as compared to US\$46.8 million in 2008.

**Year Ended December 31, 2008 Compared to Year Ended December 31, 2007**

**Total Revenues.** Our total revenues increased significantly to US\$104.1 million in 2008 from US\$29.4 million in 2007.

Our advertising service revenues increased significantly to US\$103.5 million in 2008 from US\$27.5 million in 2007. We experienced a significant increase in advertising service revenues primarily as a result of increased sales of advertising time on our mobile digital television advertising network achieved by the expansion of our strong sales network and acquisitions of six advertising agency businesses in 2008. The six acquired businesses contributed to 56% of our total revenues in 2008. To a lesser extent, our advertising service revenues also increased due to sales of advertising time on our supplemental subway advertising platform that commenced operations in May 2007. Our supplemental subway advertising platform accounted for approximately 15.2% of our advertising service revenues in 2008. We also attribute the increase in our advertisement service revenues to the growth of our network to 17 cities as of December 31, 2008 from 14 cities as of December 31, 2007. We expect our advertising service revenues to increase in future periods as our network further penetrates the out-of-home advertising market.

Our advertising equipment revenues were US\$0.6 million and US\$1.9 million in 2008 and 2007, respectively. Our advertising equipment revenues decreased as our existing direct investment entities finished the initial expansion of their local networks and scaled back their purchases of digital television displays and related equipment from us.

**Cost of Revenues.** Our cost of revenues increased significantly to US\$41.1 million in 2008 from US\$14.4 million in 2007.

Our advertising service cost increased significantly to US\$40.6 million in 2008 from US\$12.8 million in 2007. Our media cost increased significantly to US\$30.9 million in 2008 from US\$10.9 million in 2007. We experienced a significant increase in media cost primarily due to a large increase in the amount of network rental fees paid to our exclusive agency partner companies to secure advertising time. Our network rental fees for our exclusive agency cities increased significantly to US\$28.0 million in 2008 from US\$10.0 million in 2007. The number of cities operating under our exclusive agency model increased to 12 cities as of December 31, 2008 from five cities as of December 31, 2007. To a lesser extent, we also attribute the increase in our media cost to (i) increased demand for advertising time in cities operating under our direct investment and outreach agency models that require us to purchase the advertising time from the local mobile digital television network operating in that city, and (ii) payments to the subway companies for our supplemental subway advertising platform beginning in January 2007 to purchase advertising time on the supplemental subway advertising platform.

**Table of Contents**

Our depreciation increased significantly to US\$1.2 million in 2008 from US\$0.2 million in 2007 as a result of the increase in the number of digital television displays located in our exclusive agency cities.

Our business tax increased significantly to US\$6.3 million in 2008 from US\$1.2 million in 2007 as a result of the increase in our revenues.

Our other operating costs include salaries and expenses related to installation and maintenance of the displays in our network and increased significantly to US\$2.2 million in 2008 from US\$0.5 million in 2007, primarily due to the expansion of our network into new cities and also in the cities where we already operated.

Our advertising equipment cost was US\$0.5 million in 2008 compared to US\$1.6 million in 2007.

**Gross Profit.** As a result of the foregoing, our gross profit was US\$63.0 million in 2008 compared to US\$15.0 million in 2007. Our gross margin increased to 60.5% in 2008 from 51.0% in 2007. Our gross margin increased primarily due to the fact that the increase in our total revenues outpaced the increase in our cost of revenues. In addition, our advertising service revenues accounted for a larger percentage of our total revenues in 2008 compared to the same period in 2007, and we recognized a higher gross margin for our advertising service revenues compared to our advertising equipment revenues in 2008. We expect our advertising service revenues to account for an increasing percentage of our total revenues in the foreseeable future.

**Operating Expenses.** Our operating expenses increased significantly to US\$20.1 million in 2008 from US\$5.1 million in 2007.

**Selling and Marketing.** Selling and marketing expenses increased significantly to US\$14.7 million in 2008 from US\$2.1 million in 2007. Our selling and marketing expenses increased mainly due to expansion of our sales force along with increases in marketing and promotional expenses incurred by our sales force. The number of our selling and marketing employees increased to 300 as of December 31, 2008 from 120 as of December 31, 2007.

**General and Administrative.** General and administrative expenses increased to US\$5.4 million in 2008 from US\$2.9 million in 2007. Our general and administrative expenses increased mainly due to the increase in the size of our administrative staff to support our growing operations.

**Loss from Equity Method Investees.** Our loss from equity method investees decreased to US\$0.5 million in 2008 from US\$1.3 million in 2007. We experienced a decrease in our loss from equity method investees as they finished the initial expansion of their local networks and began to generate advertising service revenues.

**Operating Profit.** As a result of the foregoing, our operating profit amounted to US\$42.4 million in 2008 as compared to US\$8.6 million in 2007.

**Interest Income.** Our interest income increased to US\$3.5 million in 2008 from US\$0.5 million in 2007, primarily as a result of higher cash and cash equivalent balances provided by our financing activities. In March and July 2007, we received an aggregate of US\$40 million gross proceeds from the issuance of Series B convertible preferred shares. In December 2007, we received an aggregate of US\$100.4 million gross proceeds from our initial public offering and in August 2008, we received an aggregate of US\$17.6 million gross proceeds from our public offering.

**Income Taxes.** We recognized an income tax benefit of US\$0.2 million in 2008, primarily attributable to realization of deferred tax liabilities assumed from acquisitions.

**Net income attributable to non-controlling interest.** Our net income attributable to non-controlling interest increased to US\$0.09 million in 2008 from US\$0.01 million in 2007 primarily as the result of an increase in net loss of a subsidiary.

**Table of Contents**

***Net Income Attributable to VisionChina Media Inc. Shareholders.*** As a result of the foregoing, our net income amounted to US\$46.8 million in 2008 as compared to US\$9.4 million in 2007.

**B. Liquidity and Capital Resources**

Our liquidity needs include (i) net cash used in operating activities that consists of (a) cash required to fund the initial build-out and continued expansion of our network and (b) our working capital needs, which include payment of our operating expenses and financing of our accounts receivable; and (ii) net cash used in investing activities that consists of the investments in our direct investment entities. To date, we have financed our liquidity needs primarily through proceeds from the issuance of our preferred shares, proceeds from our public offerings, long-term borrowings from financial institutions and cash flows from operations. We raised US\$40.0 million from the issuance of Series B convertible preferred shares in March and July 2007. In December 2007, we received gross proceeds of US\$100.4 million from our initial public offering. In August 2008, we received gross proceeds of US\$17.6 million from a follow-on public offering of our ADSs. Starting in 2008, we have relied on and plan to continue relying on cash generated from operations to fund our capital expenditures.

On March 5 and March 28, 2007, we borrowed an aggregate amount of RMB17.1 million from Meidi Zhiye, a related party, to fund our working capital requirements. On April 29, 2007, we repaid Meidi Zhiye the total amount of such borrowing.

As of December 31, 2009, we had US\$68.8 million in cash and cash equivalents. Our cash primarily consists of cash on hand and cash deposited in banks and interest-bearing savings accounts. We believe that our current cash on hand, expected cash flows from operations and available credit facilities from financial institutions will be sufficient to meet our anticipated cash needs for at least the next 12 months.

As of December 31, 2009, we had access to US\$61.2 million in a short-term overseas credit line, which is secured by a pledged deposit of the RMB equivalent of US\$64.4 million in the PRC, and US\$58.5 million in long-term credit facilities. As of December 31, 2009, the principal outstanding amounts under our credit facilities included short-term bank loans of US\$40.8 million from our short-term overseas credit line and long-term bank loans of US\$0.7 million maturing after more than one year.

In January 2010, we obtained short-term bank loans of US\$20.4 from our overseas credit line and long-term bank loans of US\$57.8 million from our long-term credit facilities. In January 2010, as a result of our acquisition of Digital Media Group, we assumed short-term bank loans of US\$7.3 million and bank overdraft of US\$35.6 million, which were borrowed from PRC financial institutions.

We did not generate net income for any quarter since our inception until the three months ended June 30, 2007, in which we generated net income of US\$0.3 million. We generated net income of US\$46.8 million and US\$26.6 million in 2008 and 2009, respectively. We intend to maintain our current policies for collections of accounts receivable, which typically provide a credit period no longer than 180 days following the month in which the advertisement is displayed. We expect our accounts receivable to increase as a result of the rapid growth in our advertising service revenues. As we expect the out-of-home advertising market in China to continue growing, we plan to continue expanding our network in the cities where we already operate and into new cities. We currently rely on cash generated from operating activities to fund our liquidity needs. However, we may need additional cash resources in the future if we experience changed business conditions or other developments. We may also need additional cash resources in the future if we find and wish to pursue opportunities for investment, acquisition, strategic cooperation or other similar actions. If we determine that our cash requirements exceed the amounts of cash on hand, we may seek to issue debt or equity securities or obtain additional short-term or long-term bank financing. Any issuance of equity securities could cause dilution for our shareholders. Any incurrence of indebtedness could increase our debt service obligations and cause us to be subject to restrictive operating and financial covenants. It is possible that, when we need additional cash resources, financing will only be available to us in amounts or on terms that would not be acceptable to us or financing will not be available at all.

**Table of Contents**

The following table sets forth a summary of our cash flows for the periods indicated:

	<b>For the Year Ended December 31,</b>		
	<b>2007</b>	<b>2008</b> (US\$)	<b>2009</b>
Net cash provided by (used in) operating activities	(6,000,540)	24,329,809	39,397,267
Net cash used in investing activities	(8,193,279)	(21,762,467)	(170,649,621)
Net cash provided by financing activities	138,822,631	24,615,240	37,133,503
Effect of changes in exchange rate	1,295,154	4,926,045	(295,348)
Net increase (decrease) in cash and cash equivalents	125,923,966	32,108,627	(94,414,199)
Cash and cash equivalents, beginning of period/year	5,215,693	131,139,659	163,248,286
Cash and cash equivalents, end of period/year	131,139,659	163,248,286	68,834,087

**Operating Activities**

Our net cash provided by operating activities amounted to US\$39.4 million in 2009, net cash provided by operating activities amounted to US\$24.3 million in 2008 and net cash used in operating activities amounted to US\$6.0 million in 2007. Our net cash provided by operating activities in 2009 primarily as a result of operating income of US\$26.5 million in 2009.

**Investing Activities**

Our net cash used in investing activities amounted to US\$170.6 million in 2009, US\$21.8 million in 2008 and US\$8.2 million in 2007. Our net cash used in investing activities increased in 2009 primarily due to payment for the purchase consideration of US\$64.2 million in connection with six acquisitions in 2008 and prepayments of US\$40.0 million in connection with our acquisition of Digital Media Group. The remaining amount of net cash used in investing activities in 2009 was primarily due to an increase in restricted cash of US\$64.4 million. This restricted cash balance was for a pledge of a bank deposit used to obtain an offshore bank credit line in 2009. The purpose of the offshore bank credit line is to finance foreign currency payments for our acquisitions mentioned above.

We purchased all of the outstanding equity interests of six British Virgin Islands companies from sellers of them pursuant to share subscription agreements entered into in April, May and August 2008 in connection with our acquisition of certain advertising agency businesses in China. These acquisitions broadened our advertising client base and expanded our sales team with experienced industry professionals. With respect to each of the acquired businesses, we entered into a share subscription agreement with the sellers of such business, under which we paid a deposit up front. In addition, we and the sellers will determine the net profit generated by such business in the period from the completion of the acquisition through remainder of 2008 and in 2009 and 2010 after the end of the relevant periods. If there is a net profit for any of these relevant periods, we will make payments to the sellers, the amount of which will be determined in reference to cash actually received in respect of the net revenues generated by these businesses.

The purchase price was comprised entirely of contingent consideration based on certain multiples on the earnings and the percentage of revenues collected. In connection with these acquisitions, we paid an aggregate deposit of US\$16.7 million in 2008. These initial deposits will be used to offset a portion of the additional consideration payable at the end of the earn-out period (see below for details on the additional consideration payable). The additional consideration, or Earn-out Consideration, was calculated based on the earnings of each of the acquired businesses in 2008 (after the date of acquisitions), 2009 and 2010. The following table summarizes the maximum Earn-out Consideration for 2008 and 2009:

	<b>Peak</b>	<b>Aim</b>	<b>Golden</b>	<b>Goldwhite</b>	<b>Ahead</b>	<b>Century</b>	<b>Total</b>
Total Earn-out Consideration:							
2008	22,495,063	12,682,567	8,976,319	9,365,189	12,191,410	3,727,453	69,438,001
2009	25,823,672	11,835,676	7,732,219	11,122,901	13,623,225	5,096,020	75,233,713

Edgar Filing: VISIONCHINA MEDIA INC. - Form 20-F/A

The following table summarizes the details of the Earn-out Consideration payables from that date of acquisition to December 31, 2009:

	<b>Peak</b>	<b>Aim</b>	<b>Golden</b>	<b>Goldwhite</b>	<b>Ahead</b>	<b>Century</b>	<b>Total</b>
Earn-out Consideration payable at December 31, 2008	\$ 14,077,134	\$ 3,486,233	\$ 4,037,393	\$ 4,808,952	\$ 4,933,377	\$ 2,167,694	\$ 33,510,783
Additional Earn-out Consideration for 2008	8,417,929	9,196,334	4,938,926	4,556,237	7,258,033	1,559,759	35,927,218
Earn-out Consideration for 2009	25,823,672	4,881,252	5,154,755	4,792,551	6,917,422	4,445,735	52,015,387
Less: Settlements in 2009	(20,280,617)	(12,268,699)	(8,495,113)	(8,065,394)	(11,840,634)	(3,298,945)	(64,249,402)
At December 31, 2009	\$ 28,038,118	\$ 5,295,120	\$ 5,635,961	\$ 6,092,346	\$ 7,268,198	\$ 4,874,243	\$ 57,203,986

We have paid US\$64.2 million consideration in 2009 in relation to the 2008 earn-out as determined based on the net revenues of the acquired advertising agency businesses and the cash collected in respect to the net revenues generated by these businesses. The Earn-out Consideration is calculated based certain multiples on the earnings, as stipulated in the acquisition agreements, of each of the businesses acquired. Payment of the Earn-out Consideration is based on the percentage of revenues collected. Therefore, receivables recorded as of December 31, 2008 related to 2008 revenues that were subsequently collected in 2009 result in a liability for an additional portion of the 2008 Earn-out Consideration. For the 2009 Earn-out Consideration, because not all of the 2009 revenues were collected as of December 31, 2009, additional Earn-out Consideration payable will be recorded in 2010 as the receivables recorded as of December 31, 2009 related to the 2009 revenues are collected in 2010. The portion of the total Earn-out Consideration that will be offset against the deposit for acquisitions has been recorded as a long term liability because the right of offset will not exist until the Earn-out Consideration period is completed.

As of December 31, 2009, we recorded a current consideration payable of US\$47.9 million and a non-current consideration payable of US\$9.3 million, as determined based on the net revenues of the acquired advertising agency businesses and the cash collected in respect to the net revenues generated by these businesses as of December 31, 2009. As we expect to collect additional cash in respect of the net revenues generated by these advertising agency businesses in 2009, we may have to pay an additional consideration of US\$23.2 million in the maximum for these businesses in 2010 in relation to the 2009 earn-out, which is not reflected in the financial statements included in this annual report. We expect to settle the consideration payable with our cash balance.

In October 2009, we entered into an agreement and plan of merger (which was amended and restated in November 2009) to acquire Digital Media Group through a merger of a subsidiary with and into Digital Media Group, which was completed in January 2010. Under the agreement and plan of merger, the total consideration of US\$160 million which is a notional amount is payable in three installments over two years in cash and shares. In November 2009, we deposited cash in the amount of US\$40 million and 8,476,013 of our common shares, registered under Vision Best Limited, our consolidated subsidiary, as the initial installment, into an escrow account, a portion of

which was released at the completion of the acquisition and the remaining portion to be released in accordance with the terms of the agreement and plan and merger. Two subsequent installments of US\$30 million each will be paid on the first and second anniversaries of the acquisition, of which US\$20 million will be in the form of cash and US\$10 million in cash or shares at the option of the eligible former shareholders of Digital Media Group. Our preliminary valuation of the acquisition date fair value of the consideration transferred was approximately US\$167 million, which was greater than the notional amount of US\$160 million due to the fair value adjustments of consideration payable in the form of shares. We expect to settle the cash consideration payable with our cash balance.

**Table of Contents*****Financing Activities***

Our net cash provided by financing activities amounted to US\$37.1 million in 2009, compared to US\$24.6 million in 2008 and US\$138.8 million in 2007. Our net cash provided by financing activities in 2007 primarily consisted of proceeds from our issuance of Series B convertible preferred shares and from our initial public offering in December 2007, while our net cash provided by financing activities in 2008 primarily consisted of proceeds from our public offering and sale of 1,150,000 ADSs in August 2008. Our net cash provided by financing activities in 2009 is mainly attributable to (i) an increase of US\$40.8 million in net proceeds under an offshore credit line and (ii) an increase of US\$0.7 million in net proceeds from a domestic loan. We also used US\$5.0 million for share repurchases in 2009.

On December 3, 2009, we entered into a credit facility agreement with the Bank of China to provide a maximum loan amount of RMB 400 million (US\$58.5 million). As of December 31, 2009, we have drawn down a two-year term loan of \$0.7 million under this credit facility. The loan carries a floating interest rate equal to of 90% of the People's Bank of China benchmark rate and is guaranteed by CDTC.

***Capital Expenditures***

We had capital expenditures of US\$4.3 million, US\$5.0 million and US\$1.6 million for the years ended December 31, 2007, 2008 and 2009. Our capital expenditures were made primarily to acquire digital television displays and related equipment for our network and, beginning in 2007, we also made capital expenditures to upgrade our accounting software and systems. Our capital expenditures are primarily funded by net cash provided by financing activities and to a lesser extent by cash generated from our operations. We expect our capital expenditures in 2010 to primarily consist of purchases of digital television displays and related equipment as we continue to expand our mobile digital television advertising network. We believe that we will be able to fund these upgrades and equipment purchases through our internal cash, and do not anticipate that these obligations will have a material impact on our liquidity needs.

In connection with the required compliance with the National Standard, we may need to incur additional capital expenditures in order to upgrade the mobile digital television receivers, and we believe that these capital expenditures would not materially affect our liquidity.

**Recently Issued Accounting Pronouncements**

In June 2009, the FASB issued SFAS 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles—a replacement of FASB Statement No. 162, or SFAS 162, collectively known as SFAS 168. SFAS 168 states that the FASB Accounting Standards Codification will become the source of authoritative U.S. GAAP recognized by the FASB. Once effective, the Codification's content will carry the same level of authority, effectively superseding SFAS 162. The U.S. GAAP hierarchy will be modified to include only two levels of U.S. GAAP: authoritative and nonauthoritative. The adoption did not have a material impact on our financial position, results of operations and cash flows.

In December 2009, the FASB issued Accounting Standards Update, or ASU, 2009-17, Consolidations (Topic 810) Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities, or ASU 2009-17, which amends the FASB ASC for the issuance of FASB Statement No. 167, Amendments to FASB Interpretation No. 46(R), issued by the FASB in June 2009. The amendments in this ASU replace the quantitative-based risks and rewards calculation for determining which reporting entity, if any, has a controlling financial interest in a variable interest entity with an approach primarily focused on identifying which reporting entity has the power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance and (1) the obligation to absorb the losses of the entity or (2) the right to receive the benefits from the entity. ASU 2009-17 also requires additional disclosure about a reporting entity's involvement in VIE, as well as any significant changes in risk exposure due to that involvement. ASU 2009-17 is effective for annual and interim periods beginning after November 15, 2009. Early application is not permitted. The adoption of ASU 2009-17 is not expected to have a material impact on our financial position, results of operations and cash flows.



**Table of Contents**

Effective January 1, 2009, the Group adopted certain provision of FASB ASC 805 Business Combination (formerly SFAS No. 141R), to improve reporting, creating greater consistency in the accounting and financial reporting of business combinations. The standard requires the acquiring entity in a business combination to recognize all, as of that date, the assets acquired and liabilities assumed in the acquiree at the acquisition-date, measured at their fair values; and requires the acquirer to disclose to investors and other users all of the information they need to evaluate and understand the nature and financial effect of the business combination. The adoption of SFAS 141R did not have a significant effect on our financial position, results of operations or cash flows.

**C. Research and Development**

We do not make, and do not expect to make, significant expenditures on research and development activities.

**D. Trend Information**

Other than as disclosed elsewhere in this annual report, we are not aware of any trends, uncertainties, demands, commitments or events for the period from January 1, 2009 to December 31, 2009 that are reasonably likely to have a material adverse effect on our net revenues, income, profitability, liquidity or capital resources, or that caused the disclosed financial information to be not necessarily indicative of future operating results or financial conditions.

**E. Off-Balance Sheet Arrangements**

We have not entered into any financial guarantees or other commitments to guarantee the payment obligations of any third parties. In addition, we have not entered into any derivative contracts that are indexed to our own shares and classified as shareholder's equity, or that are not reflected in our consolidated financial statements. Furthermore, we do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity. Moreover, we do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing, hedging or research and development services with us.

**F. Tabular Disclosure of Contractual Obligations**

The following table sets forth our contractual obligations and commercial commitments as of December 31, 2009:

	<b>Total</b>	<b>Less than 1 year</b>	<b>1-3 years (US\$)</b>	<b>3-5 years</b>	<b>More than 5 years</b>
Long-term purchase agreement	189,600,000	46,531,000	74,906,000	43,025,000	25,138,000
Operating lease obligations	2,036,988	977,672	634,510	254,950	169,856
Consideration for an acquisition	60,000,000	30,000,000	30,000,000		
<b>Total contractual obligations</b>	<b>251,636,988</b>	<b>77,508,672</b>	<b>105,540,510</b>	<b>43,279,950</b>	<b>25,307,856</b>

We have entered into several agreements under our exclusive agency model to purchase advertising time from local mobile digital television companies for a period of five to ten years. As of December 31, 2009, future minimum purchase commitments under these agreements totaled approximately US\$189.6 million.

Operating lease obligations represent leasing arrangements relating to the lease of our office premises. Consideration for an acquisition relates to payment obligations for the remaining two installments, each in the amount of US\$30 million, of the total consideration of our acquisition of Digital Media Group. Eligible former shareholders of Digital Media Group may elect to receive US\$10 million of each US\$30 million installment in the form of cash or our common shares.

**Table of Contents****G. Safe Harbor**

This annual report contains forward-looking statements that relate to future events, including our future operating results and conditions, our prospects and our future financial performance and condition, all of which are largely based on our current expectations and projections. The forward-looking statements are contained principally in the sections entitled Item 3. Key Information D. Risk Factors, Item 4. Information on the Company and Item 5. Operating and Financial Review and Prospects. These statements are made under the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. You can identify these forward-looking statements by terminology such as may, will, expect, anticipate, future, intend, plan, believe, estimate, is/are likely to or other and si

We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs. These forward-looking statements include, among other things, statements relating to:

our growth strategies, including our plan or intention to expand the coverage and penetration of our national network, to maximize our average revenues per hour, to continue to pursue exclusive arrangements with additional mobile digital television companies, to continue to explore new digital media technologies and techniques, to expand our network to other advertising media platforms and to pursue strategic relationships and acquisitions;

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

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

our ability to manage the expansion of our operations;

changes in general economic and business conditions in China; and

trends and competition in the mobile digital television advertising industry.

The forward-looking statements made in this annual report relate only to events or information as of the date on which the statements are made in this annual report. Except as required by law, we undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise, after the date on which the statements are made or to reflect the occurrence of unanticipated events. You should read this annual report completely and with the understanding that our actual future results may be materially different from what we expect.

**Item 6. Directors, Senior Management and Employees****A. Directors and Senior Management****Directors and Executive Officers**

The following table sets forth information regarding our directors and executive officers as of January 21, 2011.

<b>Name</b>	<b>Age</b>	<b>Position/ Title</b>
Limin Li	48	Chairman of the Board of Directors, Chief Executive Officer
Haijun Liu	46	Chief Development Officer
Yan Wang	31	Senior Financial Controller

**Table of Contents**

<b>Name</b>	<b>Age</b>	<b>Position/ Title</b>
Yanqing Liang	37	Director
William Decker	63	Independent Director
Xisong Tan	61	Independent Director
Yunli Lou	41	Independent Director

*Limin Li* is our co-founder and has been chairman of our board of directors since our inception in 2005 and our chief executive officer since March 2007. Mr. Li has been a director and chairman of Shenzhen Champs Elysees Venture Capital Management Co., Ltd., a PRC company engaging in project financing and investment management, since 2003. He has also been a director and chairman of Shenzhen Meidi Real Estate Development Co., Ltd., a PRC real estate development company, since 1997. He has also been a director and chairman of Shenzhen Meiye Enterprise Development Co., Ltd., a PRC manufacturer and distributor of electronic products, since 1992. Mr. Li received a bachelor's degree from Wuhan Institute of Physical Education.

*Haijun Liu* has been our chief development officer since July 2008. Mr. Liu was the general manager of Beijing Beiguang Media Mobile Television Advertising Co., Ltd., a wholly-owned subsidiary of our company from October 2006 to January 2009. From August 2005 to October 2006, Mr. Liu was general manager of Jilin Mobile Television Co., Ltd., a direct investment entity of our company. From 1996 to 2005, he was general manager of Shenzhen Huali Electronic Co., Ltd. Mr. Liu received a bachelor's degree and a master's degree in electronic materials from Xi'an Jiaotong University in 1985 and 1991, respectively.

*Yan Wang* is our senior financial controller since December 2009. Mr. Wang joined us in April 2009 as a full-time employee. Before joining VisionChina Media, Mr. Wang was an audit manager at KPMG, an independent public registered accounting firm. From 2001 to 2009, he worked in the audit department in KPMG Guangzhou office for eight years, and has led the audit engagements for SEC registrants, including both audits of US GAAP financial statement and audits of the internal control over financial reporting. Mr. Wang received a bachelor degree of arts from Guangdong University of Foreign Studies in 2001.

*Yanqing Liang* is our co-founder and has been a director of our company since our inception in 2005. Since 2006, she has been a director of Beijing Zonghe Qingrun Investment Co., Ltd. From 1997 to 2005, Ms. Liang worked for the human resource department of the Guangdong branch of China Mobile Limited. Ms. Liang received a bachelor's degree from Harbin Normal University in 1997.

*William Decker* has been a director of our company since December 2007. Mr. Decker has served as an independent director and the chair of the audit committee of Baidu.com, Inc. since October 2005. Mr. Decker is a retired partner of PricewaterhouseCoopers LLP. Prior to his retirement in July 2005, Mr. Decker was the senior partner in charge of PricewaterhouseCoopers LLP's Global Capital Markets Group. He led a team of more than 300 professionals in 25 countries to provide technical support to non-US companies on SEC regulations and U.S. GAAP reporting and assistance with the Sarbanes-Oxley Act compliance work. He was also one of PricewaterhouseCoopers LLP's lead authorities on the Sarbanes-Oxley Act. Mr. Decker received a bachelor's degree in accounting from Fairleigh Dickinson University in New Jersey.

**Table of Contents**

*Xisong Tan* has been a director of our company since December 2007. Ms. Tan has served as a director and chairwoman of the board of directors of Hairun Ogilvy Entertainment Distribution and Advertising Company since 2005. She also served as a consultant of our company from 2006 until 2007. From 1999 to 2005, Ms. Tan served as general manager of Hong Kong China Advertising Company and president of Hairun Advertising Company. Prior to 1999, she was the director of the advertising department of China Central Television, or CCTV, the director of CCTV's advertisement and economic information center and assistant president of CCTV, which operates the largest television network in China. Ms. Tan is a director of China Advertising Association and a director of China Four-A Advertising Association. She received a bachelor's degree from the Party School of the Central Communist Party Commission.

*Yunli Lou* has been a director of our company since March 2007. Ms. Lou has been a non-executive director of Yuhua TelTech (Shanghai) Co., Ltd., a China-based research and development company in the wireless industry, since 2004. Ms. Lou has been a managing director of Milestone Capital Partners Limited since 2007, responsible for the firm's overall management, investor relations as well as deal sourcing and execution. She has been a managing partner of Milestone Capital Management Limited since 2002. Before founding Milestone Capital in 2002, Ms. Lou was a vice president of Merrill Lynch's direct investment group, where she was responsible for the firm's investment activities in China. Prior to joining Merrill Lynch in 1995, she worked in the corporate finance division of Goldman Sachs in New York and Hong Kong. Ms. Lou received a bachelor's degree in economics from Harvard University in 1992.

The business address for all of our executive officers and directors, except Yunli Lou, is 1/F Block No. 7, Champs Elysees, Nongyuan Road, Futian District, Shenzhen 518040, the People's Republic of China. Yunli Lou uses her business addresses disclosed in Item 6. Directors, Senior Management and Employees E. Share Ownership.

**B. Compensation of Directors and Executive Officers****Compensation of Directors and Executive Officers**

In 2009, the aggregate cash compensation to our executive officers, including all the directors, was US\$0.8 million. For options granted to officers and directors, see 2006 Share Incentive Plan.

**2006 Share Incentive Plan**

We have adopted our 2006 share incentive plan, or the 2006 share incentive plan, to attract and retain the best available personnel, provide additional incentives to our employees, directors and consultants, and promote the success of our business. The 2006 share incentive plan provides for the grant of options, restricted shares, and restricted share units, collectively referred to as awards. Our board of directors has authorized the issuance of up to 8,000,000 common shares upon exercise of awards granted under our 2006 share incentive plan.

**Plan Administration.** Our board of directors, or a committee designated by our board or directors, will administer the 2006 share incentive plan. The committee or the full board of directors, as appropriate, will determine the participants to receive awards, the type and number of awards to be granted, and the terms and conditions of each award grant.

**Award Agreements.** Awards granted under our 2006 share incentive plan are evidenced by an award agreement that sets forth the terms, conditions and limitations for each grant, which may include the term of the award, the provisions applicable in the event that the grantee's employment or service terminates, and our authority to unilaterally or bilaterally amend, modify, suspend, cancel or rescind the award.

**Transfer Restrictions.** The right of a grantee in an award granted under our 2006 share incentive plan may not be transferred in any manner by the grantee other than by will or the laws of succession and, with limited exceptions, may be exercised during the lifetime of the grantee only by the grantee.

**Table of Contents**

**Option Exercise.** The term of options granted under the 2006 share incentive plan may not exceed ten years from the date of grant. The consideration to be paid for our common shares upon exercise of an option or purchase of shares underlying the option may include cash, check or other cash-equivalent, common shares, consideration received by us in a cashless exercise, or any combination of the foregoing methods of payment.

**Acceleration upon a Change of Control.** If a change of control of our company occurs and a grantee is terminated without cause within one year after such change of control, our board of directors may decide to grant one year acceleration to such terminated grantee. There is no other accelerated vesting in any event.

**Termination and Amendment.** Unless terminated earlier, our 2006 share incentive plan will expire after ten years. Our board of directors has the authority to amend or terminate our 2006 share incentive plan subject to shareholder approval to the extent necessary to comply with applicable laws. Shareholders' approval is required for any amendment to the 2006 share incentive plan that (i) increases the number of common shares available under the 2006 share incentive plan, (ii) permits our board of directors to extend the exercise period for an option beyond ten years from the grant date, or (iii) results in a material increase in benefits or a change in eligibility requirements.

Our board of directors has only granted options to participants in our 2006 share incentive plan. As of March 31, 2010, there were 2,413,165 common shares issuable upon the exercise of outstanding share options and restricted shares at a weighted average exercise price of US\$4.91 per share, and there were 1,294,859 common shares available for future issuance upon the exercise of future grants under our 2006 share incentive plan. The following table summarizes, as of March 31, 2010, the outstanding options granted to our directors and executive officers and other individuals as a group.

Name	Ordinary Shares Underlying Outstanding Options or restricted Shares	Exercise Price Underlying Outstanding Options (US\$/Share)	Grant Date	Expiration Date
Limin Li	350,000	6.545	August 30, 2007	August 30, 2017
Haijun Liu <sup>(1)</sup>	*	1.00/ 8.53	December 8, 2006/ October 8, 2009	December 8, 2016/ October 8, 2019
Yan Wang <sup>(2)</sup>	*	5.48/ 8.53	June 17, 2009 October 8, 2009	June 17, 2019 October 8, 2019
William Decker <sup>(3)</sup>	*	6.545 4.68	October 31, 2007 April 2, 2010	October 31, 2017 April 2, 2020
Xisong Tan <sup>(4)</sup>	*	1.00 4.68	December 8, 2007 April 2, 2010	December 8, 2016 April 2, 2020
Yunli Lou <sup>(5)</sup>	*	5.82/ 8.53	December 11, 2008/ October 8, 2009	December 11, 2018/ October 8, 2019
Other individuals as group	1,863,006	5.23	(6)	(7)

\* Upon exercise of all options granted, would beneficially own less than 1% of our outstanding common shares, assuming the

conversion of  
all of our  
outstanding  
preferred shares.

- (1) A portion of the options was granted on December 8, 2006 with an exercise price of US\$1.00 and another portion was granted on October 8, 2009 with an exercise price of US\$8.53.
- (2) A portion of the options was granted on June 17, 2009 with an exercise price of \$5.48 and another portion was granted on October 8, 2009 with an exercise price of US\$8.53.
- (3) A portion of the options was granted on October 31, 2007 with an exercise price of \$6.545 and another portion was granted on April 2, 2010 with an exercise price of US\$4.68.
- (4) A portion of the options was granted on December 8,

2006 with an exercise price of \$6.545 and another portion was granted on April 2, 2010 with an exercise price of US\$4.68.

(5) A portion of the options was granted on December 11, 2008 with an exercise price of US\$5.82 and another portion was granted on October 8, 2009 with an exercise price of US\$8.53.

(6) Options were granted to other individuals on various dates.

(7) Other individuals options expire on various dates.

**Table of Contents**

C. **Board Practices**

**Committees of the Board of Directors**

***Audit Committee***

Our audit committee consists of William Decker, Xisong Tan and Yunli Lou. Our board of directors has determined that each of William Decker, Xisong Tan and Yunli Lou satisfies the independence requirements of Rule 10A-3 under the Securities Exchange Act of 1934, as amended, and Rule 5605(a)(2) of the Nasdaq Listing Rules. Mr. Decker is the chairman of our audit committee and meets the criteria of an audit committee financial expert as set forth under the applicable rules of the SEC. Our audit committee oversees our accounting and financial reporting processes and the audits of the financial statements of our company. The audit committee is responsible for, among other things:

selecting our independent auditors and pre-approving all auditing and non-auditing services permitted to be performed by our independent auditors;

reviewing with our independent auditors any audit problems or difficulties and management's response;

reviewing and approving all proposed related-party transactions, as defined in Item 404 of Regulation S-K under the Securities Act;

discussing the annual audited financial statements with management and our independent auditors;

reviewing major issues as to the adequacy of our internal controls and any special audit steps adopted in light of material control deficiencies;

annually reviewing and reassessing the adequacy of our audit committee charter;

such other matters that are specifically delegated to our audit committee by our board of directors from time to time;

meeting separately and periodically with management and our internal and independent auditors; and

reporting regularly to the full board of directors.

***Compensation Committee***

Our compensation committee consists of William Decker, Yunli Lou and Xisong Tan. Our board of directors has determined that each of William Decker, Yunli Lou and Xisong Tan satisfies the independence requirements of Rule 5605(a)(2) of the Nasdaq Listing Rules. Our compensation committee assists the board in reviewing and approving the compensation structure, including all forms of compensation, relating to our directors and executive officers. Our chief executive officer may not be present at any committee meeting during which his compensation is deliberated. The compensation committee is responsible for, among other things:

reviewing and making recommendations to the board with respect to the total compensation package for our three most senior executives;

approving and overseeing the total compensation package for our executives other than the three most senior executives;



**Table of Contents**

reviewing and making recommendations to the board with respect to the compensation of our directors; and

reviewing periodically and approving any long-term incentive compensation or equity plans, programs or similar arrangements, annual bonuses, employee pension and welfare benefit plans.

***Corporate Governance and Nominating Committee***

Our corporate governance and nominating committee consists of William Decker, Yunli Lou and Xisong Tan. Our board of directors has determined that each of William Decker, Yunli Lou and Xisong Tan satisfies the independence requirements of Rule 5605(a)(2) of the Nasdaq Listing Rules. Our corporate governance and nominating committee assists the board of directors in selecting individuals qualified to become our directors and in determining the composition of the board and its committees. The corporate governance and nominating committee is responsible for, among other things:

selecting and recommending to the board nominees for election or re-election to the board, or for appointment to fill any vacancy;

reviewing annually with the board the current composition of the board with regards to characteristics such as independence, age, skills, experience and availability of service to us;

selecting and recommending to the board the names of directors to serve as members of the audit committee and the compensation committee, as well as the corporate governance and nominating committee itself;

advising the board periodically with regards to significant developments in the law and practice of corporate governance as well as our compliance with applicable laws and regulations, and making recommendations to the board on all matters of corporate governance and on any remedial action to be taken; and

monitoring compliance with our code of business conduct and ethics, including reviewing the adequacy and effectiveness of our procedures to ensure proper compliance.

**Duties of Directors**

Under Cayman Islands law, our directors have a fiduciary duty to act honestly, in good faith and with a view to our best interests. Our directors also have a duty to exercise the skills they actually possess and such care and diligence that a reasonably prudent person would exercise in comparable circumstances. In fulfilling their duty of care to us, our directors must ensure compliance with our memorandum and articles of association, as amended and restated from time to time. Our company has the right to seek damages if a duty owed by our directors is breached.

The functions and powers of our board of directors include, among others:

convening shareholders annual general meetings and reporting its work to shareholders at such meetings;

issuing authorized but unissued shares and redeeming or purchasing outstanding shares of our company (subject to the Companies Law);

declaring dividends and other distributions;

appointing officers and determining the term of office of officers;

**Table of Contents**

exercising the borrowing powers of our company and mortgaging the property of our company; and

approving the transfer of shares of our company, including the registration of such shares in our share register.

**Terms of Directors and Executive Officers**

Our officers are elected by and serve at the discretion of the board of directors. Our directors are not subject to a term of office and hold office until such time as they are removed from office by special resolution or the unanimous written resolution of all shareholders. A director will be removed from office automatically if, among other things, the director (i) becomes bankrupt or makes any arrangement or composition with his creditors; or (ii) dies or is found by our company to be or becomes of unsound mind.

**Employment Agreements**

We have entered into employment agreements with each of our senior executive officers. We may terminate a senior executive officer's employment for cause, at any time, without notice or remuneration, for certain acts of the officer, including, but not limited to, a conviction or plea of guilty to a felony, willful misconduct to our detriment or a failure to perform agreed duties. A senior executive officer may terminate his or her employment at any time without penalty if there is a material reduction in his or her authority, duties and responsibilities or if there is a material breach by us, provided that we are allowed to correct or cure within 30 days upon receipt of his or her written notice of intent to terminate on such basis. Furthermore, either we or an executive officer may terminate employment at any time without cause upon advance written notice to the other party. Each senior executive officer is entitled to certain benefits upon termination, including a severance payment equal to three months' salary, if he or she resigns for certain specified good reasons or if we terminate his or her employment due to his or her incapacitation. We will indemnify an executive officer for his or her losses based on or related to his or her acts and decisions made in the course of his or her performance of duties within the scope of his or her employment.

Each senior executive officer has agreed to hold in strict confidence any trade secrets or technical secrets of our company. Each officer also agrees to comply with all material applicable laws and regulations related to his or her responsibilities at our company as well as all material written corporate and business policies and procedures of our company.

**D. Employees**

As of December 31, 2007, 2008 and 2009, we had 216, 473 and 553 full-time employees, respectively. As of December 31, 2009, we had 88 employees in management and administration, 368 in sales and marketing and 97 in network maintenance and development.

We plan to hire additional employees in all functions as we grow our business. None of our employees is represented by a labor union or other collective bargaining agreements. Since establishment, we have never experienced a strike or other disruption of employment. We believe our relationships with our employees are good.

The remuneration package of our employees includes salary, bonus, stock options, other cash benefits and benefits in-kind. In accordance with applicable PRC regulations, we participate in a pension contribution plan, a medical insurance plan, an unemployment insurance plan, a personal injury insurance plan and a housing reserve fund. Our total contribution for such employee benefits required by applicable PRC regulations amounted to US\$53,387, US\$483,065 and US\$743,516 for the years ended December 31, 2007, 2008 and 2009.

**E. Share Ownership**

The following table sets forth information with respect to the beneficial ownership of our common shares as of January 17, 2011 by:

each of our directors and executive officers; and

**Table of Contents**

each person known to us to own beneficially more than 5.0% of our common shares.

	<b>Shares Beneficially Owned<sup>(1)(2)</sup></b>	
	<b>Number</b>	<b>%</b>
<b>Directors and Executive Officers:</b>		
Limin Li <sup>(3)</sup>	17,529,849	17.1
Yanqing Liang <sup>(4)</sup>	4,981,714	4.9
Yunli Lou <sup>(5)</sup>	8,418,513	8.2
Yan Wang	*	*
Haijun Liu	*	*
William Decker	*	*
Xisong Tan	*	*
All directors and executive officers as a group <sup>(6)</sup>	31,171,738	30.5
<b>Principal Shareholders:</b>		
Front Lead Investments Limited <sup>(7)</sup>	17,529,849	17.1
Milestone I, II and III <sup>(8)</sup>	6,684,108	6.5
Massive Sheen Investments Limited <sup>(9)</sup>	4,981,714	4.9
Columbia Wanger Asset Management, L.P. <sup>(10)</sup>	9,072,800	8.9
FMR LLC <sup>(11)</sup>	5,346,842	5.2
Focus Media Holding Limited <sup>(12)</sup>	15,331,305	15.1

\* Upon exercise of all options granted, would beneficially own less than 1.0% of our outstanding common shares.

(1) Beneficial ownership is determined in accordance with Rule 13d-3 of the General Rules and Regulations under the Securities Exchange Act of 1934, as amended, and includes voting or investment power with respect to the securities.

- (2) The number of common shares outstanding in calculating the percentages for each listed person includes the common shares underlying options held by such person that are exercisable within 60 days of January 17, 2011. Percentage of beneficial ownership of each listed person is based on 102,250,087 common shares outstanding as of January 17, 2011, as well as the common shares underlying share options exercisable by such person within 60 days of January 17, 2011.
- (3) Includes 17,187,142 common shares owned by Front Lead Investments Limited, a British Virgin Islands company, and 342,707 common shares issuable upon the exercise of

options granted to Front Lead Investments Limited that are exercisable within 60 days of the date of December 31, 2009. Malte International Holdings Limited is the sole shareholder and sole director of Front Lead Investments Limited. The Li Liu Family Trust, an irrevocable trust, is the sole shareholder of Malte International Holders Limited. HSBC International Trustee Limited is the trustee of the Li Liu Family Trust with Limin Li as the settlor. Certain family members of Limin Li are beneficiaries of the Li Liu Family Trust. The business address of HSBC International Trustee Limited is Strathvale House, 2nd Floor, North Church Street, George Town, Grand Cayman, Cayman Islands

and the business address of Mr. Li is c/o VisionChina Media Inc., 1/F Block No. 7, Champs Elysees, Nongyuan Road, Futian District, Shenzhen 518040, China.

- (4) Includes 4,671,155 common shares owned by Massive Sheen Investments Limited, a British Virgin Islands company. Ms. Liang is the sole director and sole owner of Massive Sheen Investments Limited. The business address of Ms. Liang is c/o VisionChina Media Inc., 1/F Block No. 7, Champs Elysees, Nongyuan Road, Futian District, Shenzhen 518040, China.

- (5) Includes (i) 8,102,176 common shares held by Milestone I, Milestone II, Milestone III and Milestone

IV, and  
(ii) 277,587  
common shares  
(in ADS form)  
held by Linden  
Street Capital  
Limited, a  
limited liability  
company  
organized under  
the laws of the  
British Virgin  
Islands. Yunli  
Lou, a  
managing  
director of  
Milestone  
Capital Partners  
Limited,  
disclaims  
beneficial  
ownership of  
shares held by  
Milestone I,  
Milestone II,  
Milestone III  
and Milestone  
IV except to the  
extent of her  
pecuniary  
interest in these  
shares and  
(iii) 38,750  
common shares  
issuable upon  
the exercise of  
options granted  
to Yunli Lou.  
Yunli Lou is the  
sole shareholder  
of Linden Street  
Capital Limited  
and her business  
address is  
Room 1708  
Dominion  
Centre, 43-59  
Queen's Road  
East, Wanchai,  
Hong Kong.





**Table of Contents**

- (6) Include common shares held by all of our directors and executive officers as a group and common share issuable upon the exercise of all of the options that are exercisable within 60 days of January 17, 2011 held by all of our directors and executive officers.
- (7) Malte International Holdings Limited is the sole shareholder and sole director of Front Lead Investments Limited. The Li Liu Family Trust, an irrevocable trust, is the sole shareholder of Malte International Holders Limited. HSBC International Trustee Limited is the trustee of the Li Liu Family Trust with Limin Li as the settlor. Certain family members of Limin Li are beneficiaries of

the Li Liu  
Family Trust.  
The business  
address of  
HSBC  
International  
Trustee Limited  
is Strathvale  
House, 2nd  
Floor, North  
Church Street,  
George Town,  
Grand Cayman,  
Cayman Islands  
and the business  
address of  
Mr. Li is c/o  
VisionChina  
Media Inc., 1/F  
Block No. 7,  
Champs  
Elysees,  
Nongyuan  
Road, Futian  
District,  
Shenzhen  
518040, China.

- (8) Includes  
5,684,108  
common shares  
held by  
Milestone  
Mobile TV  
Media Holdings  
I Limited,  
Milestone  
Mobile TV  
Media Holdings  
II Limited, and  
Milestone  
Mobile TV  
Media Holdings  
III Limited,  
each of which is  
a limited  
liability  
company  
organized under  
the laws of the  
British Virgin

Islands. Each of Milestone I, II and III has a mailing address of P.O. Box 957, Offshore Incorporation Center, Road Town, Tortola, British Virgin Islands. Milestone I, II and III are wholly owned by Milestone China Opportunities Fund II, L.P., an exempted limited partnership formed under the laws of the Cayman Islands. The general partner of the Milestone China Opportunities Fund II, L.P. is Milestone Capital Partners Limited, a limited liability company incorporated under the laws of the Cayman Islands. The sole director of Milestone Capital Partners Limited is Cherianne Limited, a company organized under the laws of the British Virgin Islands. Yuen Ho Wan and James Ngai, as

all of the directors of Cherianne Limited, share the investment and voting power of Cherianne Limited. Ms. Wan s and Mr. Ngai s business address is Room 1708 Dominion Centre, 43-59 Queen s Road East, Wanchai, Hong Kong.

- (9) Yanqing Liang is the sole director and sole owner of Massive Sheen Investments Limited. The business address of Ms. Liang is c/o VisionChina Media Inc., 1/F Block No. 7, Champs Elysees, Nongyuan Road, Futian District, Shenzhen 518040, China.

- (10) Includes 9,072,800 common shares represented by ADSs held by Columbia Wanger Asset Management, L.P. and Columbia Acorn Trust according to its

Schedule 13G  
filed with the  
SEC on  
February 10,  
2010. Columbia  
Acorn Trust is a  
Massachusetts  
business trust  
that is advised  
by Columbia  
Wanger Asset  
Management,  
L.P. Columbia  
Wanger Asset  
Management,  
L.P. is a  
Delaware  
limited  
partnership,  
with the  
principal  
business address  
at 227 West  
Monroe Street,  
Suite 3000,  
Chicago, IL  
60606.

- (11) Includes  
5,346,842  
common shares  
represented by  
ADSs owned by  
FMR LLC  
according to its  
Schedule 13G  
filed with the  
SEC on  
February 16,  
2010. FMR  
LLC is a  
Delaware  
company with  
the business  
address at 82  
Devonshire  
Street, Boston,  
Massachusetts  
02109.

(12)

Includes  
15,331,305  
common shares  
held by Focus  
Media Holding  
Limited, a  
limited liability  
company  
incorporated in  
the Cayman  
Islands whose  
American  
Depositary  
Receipts are  
traded on the  
Nasdaq Global  
Market under  
the symbol  
FMCN . The  
mailing address  
of Focus Media  
Holding Limited  
is Unit No. 1,  
20th Floor, The  
Centrium, 60  
Wyndham  
Street, Central,  
Hong Kong.

None of our existing shareholders has voting rights that differ from the voting rights of other shareholders. We are not aware of any arrangement that may, at a subsequent date, result in a change of control of our company. For information regarding our common shares and ADSs held or beneficially owned by persons in the United States, see Item 9. The Offering and Listing Market Price for Our American Depositary Shares in this annual report.

**Item 7. Major Shareholders and Related Party Transactions**

A. Major Shareholders

Please refer to Item 6. Directors, Senior Management and Employees E. Share Ownership.

**Table of Contents****B. Related Party Transactions**

We adopted an audit committee charter, which requires that the audit committee review all related party transactions on an ongoing basis and all such transactions be approved by the committee. Set forth below is a description of all of our related party transactions for the years ended December 31, 2007, 2008 and 2009.

**Transactions with Our Direct Investment Entities*****Agreements to Purchase Advertising Time from and Sell Advertising Equipment to Our Direct Investment Entities***

Under our arrangements with our local operating partners, we are responsible for the procurement of equipment for our direct investment entities, such as digital displays and digital television receivers. We sell the advertising equipment to our direct investment entities at negotiated prices and record the sales of advertising equipment to our direct investment entities as advertising equipment revenues on our financial statements. We had advertising equipment revenues of US\$1.9 million for the year ended December 31, 2007, representing 6.5% of our total revenues for 2007, US\$0.6 million for the year ended December 31, 2008, representing 0.5% of our total revenues for 2008 and nil for the year ended December 31, 2009.

We also purchase advertising placement services from our direct investment entities at negotiated prices. For the years ended December 31, 2007, 2008 and 2009, we paid an amount of US\$2.7 million, US\$8.0 million and US\$10.3 million, respectively, to our direct investment entities for the advertising placement services.

***Exclusive Agency Agreements with Our Direct Investment Entities***

We entered into an exclusive agency agreement with Shenzhen Mobile Television Co., Ltd., or Shenzhen Mobile, in December 2006. This exclusive agency agreement grants us the exclusive right to sell the advertising time on the mobile digital television network in Shenzhen for a term from January 1, 2007 to July 31, 2011. Under the agreement, we pay a pre-determined network rental fee each year to Shenzhen Mobile. We are responsible for installing additional digital television displays on the buses of the Shenzhen public transportation companies that have entered into agreements with Shenzhen Mobile. The cost in connection with such installation is deductible from the rental fees payable by us. The terms of this exclusive agency agreement have been negotiated on an arm's length basis.

We entered into an exclusive agency agreement with Chengdu China Digital Mobile Television Co., Ltd., or Chengdu VisionChina Media Group, in July 2007. This exclusive agency agreement grants us the exclusive right to sell the advertising time on the mobile digital television network in Chengdu for a term from January 1, 2008 to December 31, 2015. Under the agreement, we pay a pre-determined network rental fee each year to Chengdu VisionChina Media Group. Chengdu VisionChina Media Group is responsible for installing additional digital television displays on the buses of the Chengdu public transportation companies that have entered into agreements with Chengdu VisionChina Media Group. The terms of this exclusive agency agreement have been negotiated on an arm's length basis.

We entered into exclusive agency agreements with Wuxi Guangtong Digital Mobile Television Co., Ltd., or Wuxi Guangtong, in September 2007. These agreements grant us the exclusive right to sell a portion of the advertising time on the mobile digital television network in Wuxi to advertisers that are not from Wuxi for a term from October 1, 2007 to December 31, 2013. Under these agreements, we pay a pre-determined network rental fee each year to Wuxi Guangtong. Wuxi Guangtong is responsible for installing additional digital television displays on the buses of the Wuxi public transportation companies that have entered into agreements with Wuxi Guangtong. The terms of this exclusive agency agreement have been negotiated on an arm's length basis.

We entered into an exclusive agency agreement with Ningbo China Digital Mobile Television Co., Ltd., or Ningbo VisionChina Media Group, in November 2007. This exclusive agency agreement grants us the exclusive right to sell the advertising time on the mobile digital television network in Ningbo for a term from January 1, 2008 to December 31, 2012. Under the agreement, we pay a pre-determined network rental fee each year to Ningbo VisionChina Media Group. Ningbo VisionChina Media Group is responsible for installing additional digital television displays on the buses of the Ningbo public transportation companies that have entered into agreements with Ningbo VisionChina Media Group. The terms of this exclusive agency agreement have been negotiated on an arm's length basis.





**Table of Contents**

We entered into an exclusive agency agreement with Jilin Mobile Television Co., Ltd., or Jilin Mobile, in March 2008. This exclusive agency agreement grants us the exclusive right to sell the advertising time on the mobile digital television network in Changchun for a term from July 1, 2008 to June 30, 2014. Under the agreement, we pay a pre-determined network rental fee each year to Jilin Mobile. Jilin Mobile is responsible for installing additional digital television displays on the buses of the Changchun public transportation companies that have entered into agreements with Jilin Mobile. The terms of this exclusive agency agreement have been negotiated on an arm's length basis.

We entered into an exclusive agency agreement with Hubei China Digital Mobile Television Co., Ltd., or Hubei VisionChina Media Group, in March 2008. This exclusive agency agreement grants us the exclusive right to sell the advertising time on the mobile digital television network in Wuhan for a term from April 1, 2008 to March 31, 2014. Under the agreement, we pay a pre-determined network rental fee each year to Hubei VisionChina Media Group. Hubei VisionChina Media Group is responsible for installing additional digital television displays on the buses of the Wuhan public transportation companies that have entered into agreements with Hubei VisionChina Media Group. The terms of this exclusive agency agreement have been negotiated on an arm's length basis.

We entered into an exclusive agency agreement with Dalian China Digital Mobile Television Co., Ltd., or Dalian VisionChina Media Group, in March 2008. This exclusive agency agreement grants us the exclusive right to sell the advertising time on the mobile digital television network in Dalian for a term from April 1, 2008 to March 31, 2014. Under the agreement, we pay a pre-determined network rental fee each year to Dalian VisionChina Media Group. Dalian VisionChina Media Group is responsible for installing additional digital television displays on the buses of the Dalian public transportation companies that have entered into agreements with Dalian VisionChina Media Group. The terms of this exclusive agency agreement have been negotiated on an arm's length basis.

We entered into an exclusive agency agreement with Suzhou China Digital Mobile Television Co., Ltd., or Suzhou VisionChina Media Group, in September 2009. This exclusive agency agreement grants us the exclusive right to sell a portion of the advertising time on the mobile digital television network in Suzhou to advertisers that are not from Suzhou for a term from October 1, 2009 to December 31, 2013. Under the agreement, we pay a pre-determined network rental fee each year to Suzhou VisionChina Media Group. Suzhou VisionChina Media Group is responsible for installing additional digital television displays on the buses of the Suzhou public transportation companies that have entered into agreements with Suzhou VisionChina Media Group. The terms of this exclusive agency agreement have been negotiated on an arm's length basis.

We entered into exclusive agency agreement with Changzhou China Digital Mobile Television Co., Ltd., or Changzhou VisionChina Media Group, in March 2010. This exclusive agency agreement grants us the exclusive right to sell a portion of the advertising time on the mobile digital television network in Changzhou to advertisers that are not from Changzhou for a term from January 1, 2010 to March 18, 2017. Under the agreement, we pay a pre-determined network rental fee each year to Changzhou VisionChina Media Group. Changzhou VisionChina Media Group is responsible for installing additional digital television displays on the buses of the Changzhou public transportation companies that have entered into agreements with Changzhou VisionChina Media Group. The terms of this exclusive agency agreement have been negotiated on an arm's length basis.

**Transactions with Companies under Common Control with Us*****Lease and loan with Meidi Zhiye***

We rented office space from Shenzhen Meidi Zhiye Development Co., Ltd., a former shareholder of VisionChina Media Group, or Meidi Zhiye, for the office space of our headquarters and VisionChina Media Group. The rent was determined based on negotiation. Limin Li, our founder and chairman of our board of directors, owns more than 10% of Meidi Zhiye's equity interest and is the chairman of Meidi Zhiye. The rental expenses totaled US\$163,511 and US\$191,758 in 2008 and 2009, respectively.

**Table of Contents**

On March 5 and March 28, 2007, VisionChina Media Group borrowed an aggregate amount of approximately US\$2.2 million from Meidi Zhiye to fund its working capital requirements. On April 29, 2007, VisionChina Media Group repaid Meidi Zhiye the total amount of borrowing.

***Transactions with Champs Elysees***

In 2007, 2008 and 2009, VisionChina Media Group paid renovation charges of US\$347,029, US\$194,101 and US\$236,124 respectively, to Champs Elysees Renovations Co., Ltd., or Champs Elysees Renovations. Limin Li's wife is the chairwoman of Champs Elysees Renovations.

**Transaction Related to Our Corporate Structure**

Under applicable PRC laws, rules and regulations, to invest in the advertising industry, foreign investors must have at least two years of direct operations in the advertising industry as their core businesses outside of the PRC. We are a Cayman Islands corporation and a foreign legal person under PRC laws and we have not directly operated any advertising business outside of China. Therefore, we do not qualify under PRC regulations to directly own equity interest in advertising services providers. Accordingly, our subsidiaries, CDTC and Beijing Eastlong Technology Development Co., Ltd. ( Beijing Eastlong Technology ) are ineligible to apply for the required licenses for providing advertising services in China. Our advertising business inside the PRC is operated through our contractual arrangements with VisionChina Media Group and Beijing Eastlong Advertising. CDTC and VisionChina Media Group entered into a series of agreements on March 30, 2006, including a technology and management service agreement, a domain name license agreement, a loan agreement, a proxy letter, an option agreement and an equity pledge agreement. CDTC and VisionChina Media Group entered into a series of new agreements on February 15, 2007, which replaced the agreements entered into on March 30, 2006 described in the preceding sentence. Beijing Eastlong Technology and Beijing Eastlong Advertising entered into a series of agreements, including a business cooperation agreement, loan agreements, option agreements and equity pledge agreements. These contractual arrangements enable us to exercise effective control over VisionChina Media Group Beijing Eastlong Advertising and their respective subsidiaries and receive substantially all of the economic benefits of these entities in consideration for the services provided by our subsidiary in China. We intend to continue our business operations in China upon the expiration of these contractual arrangements by renewing them or entering into new contractual arrangements if the then current PRC law does not allow us to directly operate advertising businesses in China. We believe that, under these contractual arrangements, we have sufficient control over VisionChina Media Group, Beijing Eastlong Advertising and their respective shareholders to renew or enter into new contractual arrangements prior to the expiration of the current arrangements on terms that would enable us to continue to operate our business in China after the expiration of the current arrangements.

**Agreements that Transfer Economic Benefit to Us**

***Technology and Management Service Agreement.*** Pursuant to the technology and management service agreement entered into on February 15, 2007 between CDTC and VisionChina Media Group, CDTC provides technology consulting and management services related to the business operations of VisionChina Media Group. As consideration for such services, VisionChina Media Group has agreed to pay service fees as specified by CDTC in its fee notice to VisionChina Media Group from time to time. The fees payable are calculated based on hourly rates set forth in the agreement or otherwise agreed upon between the parties. The term of this agreement is 25 years from the date thereof. In the event of a default under this agreement, the non-defaulting party can terminate this agreement.

***Domain Name License Agreement.*** Pursuant to the domain name license agreement entered into on February 15, 2007 between CDTC and VisionChina Media Group, CDTC grants VisionChina Media Group the exclusive right to use its domain names www.cdmtv.tv and www.cdmg.cn, in exchange for a fee based on the gross annual revenues of VisionChina Media Group. The fee is subject to periodic adjustments by the parties. The agreement has a term of 25 years, which may be terminated at any time or extended by CDTC at its discretion. In the event of a default under this agreement, the non-defaulting party can terminate this agreement.

***Business Cooperation Agreement.***

Pursuant to the business cooperation agreement entered into on February 22, 2005 between Beijing Eastlong Technology and Beijing Eastlong Advertising, Beijing Eastlong Advertising may establish entities for the purposes of operating an out-of-home advertising platform and selling advertisements or value-added-services on that platform.

Beijing Eastlong Technology provides Beijing Eastlong Advertising with technology consulting services related to the conduct of its business. As consideration for such services, the profits generated by Beijing Eastlong Advertising shall be distributed to Beijing Eastlong Technology in accordance with the business cooperation agreement. Beijing Eastlong Technology is the exclusive and sole cooperating partner of Beijing Eastlong Advertising. The term of this agreement commences on February 22, 2005 and remains in effect unless Beijing Eastlong Technology ceases to exist. This agreement can be terminated if Beijing Eastlong Technology is unable to provide any services to Beijing Eastlong Advertising for a continuous period of more than three years due to force majeure.

**Agreements that Provide Us Effective Control over VisionChina Media Group, Beijing Eastlong Advertising and Their Respective Subsidiaries**

**Loan Agreement.** CDTC entered into a loan agreement with Limin Li and Yanqing Liang on February 15, 2007 that allows us to capitalize our PRC operating affiliates in VisionChina Group and which facilitates the establishment of our current corporate structure in VisionChina Group. CDTC made an interest-free loan of RMB50 million to the shareholders of VisionChina Media Group. The loan can be repaid only with the proceeds from the transfer of the shareholder's equity interest in VisionChina Media Group to CDTC or another person designated by CDTC pursuant to the Option Agreement as discussed below. In the event of a default under this agreement, the non-defaulting party can terminate this agreement.

Beijing Eastlong Technology entered into a series of loan agreements and amendments thereto with Qijun Men and Haifeng Wang in February 2005, March 2007 and May 2008, that allowed Beijing Eastlong Advertising to capitalize its PRC operating affiliates and facilitates the establishment of the current corporate structure. Beijing Eastlong Technology made an interest-free loan of RMB20 million to the shareholders of Beijing Eastlong Advertising. This loan can only be repaid by transferring the shareholder's equity interest in Beijing Eastlong Advertising to Beijing Eastlong Technology or another person designated by Beijing Eastlong Technology. In the event of a default under this agreement, the non-defaulting party can terminate this agreement.

**Table of Contents**

**Proxy Letter.** Limin Li and Yanqing Liang signed certain proxy letters on February 15, 2007, pursuant to which Limin Li and Yanqing Liang have granted an employee of CDTC, who is a PRC citizen, the right to exercise all their voting rights as shareholders of VisionChina Media Group as provided under its articles of association. Such grant must be approved by CDTC and the grantee must be an employee of CDTC. If the grantee ceases to be an employee of CDTC, then the grantors will revoke the proxy and grant a similar proxy to a then-current employee of CDTC designated by CDTC. The proxy letters will remain effective until February 15, 2032.

**Option Agreement.** CDTC and Limin Li and Yanqing Liang entered into an option agreement on February 15, 2007, pursuant to which CDTC has an exclusive option to purchase, or to designate another qualified person to purchase, to the extent permitted by PRC law and foreign investment policies, part or all of the equity interests in VisionChina Media Group owned by Limin Li and Yanqing Liang. The purchase price for the entire equity interest shall be the greater of (i) RMB50 million and (ii) the minimum price permitted by applicable PRC law and agreed upon by the parties. The option agreement remains in effect until the completion of the transfer of all the shares in accordance with the option agreement. In the event of a default under this agreement, the non-defaulting party can terminate this agreement.

Beijing Eastlong Technology and Qijun Men and Haifeng Wang entered into a series of option agreements and amendments thereto in February 2005, March 2007 and May 2008, pursuant to which Beijing Eastlong Technology has an exclusive option to purchase, or to designate another qualified person to purchase, to the extent permitted by PRC law and foreign investment policies, all of the equity interests in Beijing Eastlong Advertising owned by Qijun Men and Haifeng Wang. The purchase price for the entire equity interest shall be RMB20 million. The option agreement remains in effect until the completion of the transfer of all the shares in accordance with the option agreement.

**Equity Pledge Agreement.** Pursuant to an equity pledge agreement entered into on February 15, 2007, Limin Li and Yanqing Liang have pledged their equity interest in VisionChina Media Group to CDTC to secure their obligations under the loan agreement and VisionChina Media Group's obligations under the technology and management service agreement and domain name license agreement, each as described above. In addition, shareholders of VisionChina Media Group agree not to transfer, sell, pledge, dispose of or create any encumbrance on any equity interests in VisionChina Media Group that would affect the pledgee's interests. The equity pledge agreement will expire when the shareholders fully perform their obligations under the agreements described above.

C. **Interests of Experts and Counsel**

Not applicable.

**Item 8. Financial Information**

A. **Consolidated Statements and Other Financial Information**

We have appended consolidated financial statements filed as part of this annual report.

**Legal and Administrative Proceedings**

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

**Dividend Policy**

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

**Table of Contents**

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

**B. Significant Changes**

In October 2009, we entered into an agreement and plan of merger (which was amended and restated in November 2009) to acquire Digital Media Group through a merger of a subsidiary with and into Digital Media Group, which was completed in January 2010. The total consideration of US\$160 million is payable in three installments over two years in cash and shares. In November 2009, we deposited the initial installment of US\$40 million and 8,476,013 of our common shares, registered under Vision Best Limited, our consolidated subsidiary, into an escrow account, a portion of which was released at the completion of the acquisition and the remaining portion to be released in accordance with the terms of the agreement and plan and merger relating to our acquisition of Digital Media Group. Two subsequent installments of US\$30 million each will be paid on the first and second anniversaries of the acquisition, of which US\$20 million will be in the form of cash and US\$10 million in cash or shares at the option of the eligible former shareholders of Digital Media Group.

With our acquisition of Digital Media Group, we significantly increased the scale of our media costs as we expanded our advertising presence in subways in China. As a result, we expect to incur increased media costs in the future, which could negatively impact our gross margins, particularly if our revenues do not increase sufficiently to offset these increased costs.

We have not experienced any other significant changes since the date of our audited consolidated financial statements included in this annual report.

**Item 9. The Offer and Listing****A. Offering and Listing Details.**

Our ADSs, each representing one of our common shares, have been listed on the Nasdaq Global Market since December 6, 2007 under the symbol VISN. The table below shows, for the periods indicated, the high and low market prices for our ADSs. The closing price for our ADSs on the Nasdaq Global Market on January 20, 2011 was US\$4.44 per ADS.

	<b>Market Price Per ADS</b>	
	<b>High</b>	<b>Low</b>
Yearly:		
2007 (since December 6)	9.80	7.63
2008	25.60	4.25
2009	12.27	4.80
2010	11.85	2.51
Quarterly:		
2009		
First quarter	7.80	5.06
Second quarter	8.18	4.80
Third quarter	8.15	5.21
Fourth quarter	12.27	7.04
2010		
First quarter	11.85	4.61
Second quarter	5.04	2.51
Third quarter	4.70	2.90
Fourth quarter	5.10	3.41
Monthly:		
2010		
July	4.03	2.90
August	4.20	3.36

September	4.70	3.55
October	5.10	4.11
November	4.24	3.41
December	4.72	3.57
2011		
January (through January 20)	4.82	4.30

**Table of Contents**

As of March 31, 2010, a total of 64,155,749 ADSs were outstanding. As of March 31, 2010, a total of 64,155,749 common shares were registered in the name of a nominee of The Bank of New York Mellon, the depository for the ADSs. We have no further information as to common shares or ADSs held, or beneficially owned, by U.S. persons.

B. Plan of Distribution

Not applicable.

C. Markets

Our ADSs, each representing one of our common shares, have been listed on the Nasdaq Global Market since December 6, 2007 under the symbol VISN.

D. Selling Shareholders

Not applicable.

E. Dilution

Not applicable.

F. Expenses of the Issue

Not applicable.

**Item 10. Additional Information**

A. Share Capital

Not applicable.

B. Memorandum and Articles of Association

We incorporate by reference into this annual report the description of our amended and restated memorandum of association contained in our F-1 registration statement (File No. 333-147275), as amended, initially filed with the Commission on November 29, 2007. Our shareholders adopted our amended and restated memorandum and articles of association by Special Resolution passed on November 8, 2007 and effective upon completion of our initial public offering of common shares represented by our ADSs.

C. Material Contracts

We have not entered into any material contracts other than in the ordinary course of business and other than those described in Item 4. Information on the Company or elsewhere in this annual report.

D. Exchange Controls

**Foreign Currency Exchange**

Foreign currency exchange regulation in China is primarily governed by the following rules:

Foreign Currency Administration Rules (1996), as amended, or the Exchange Rules; and

**Table of Contents**

Administration Rules of the Settlement, Sale and Payment of Foreign Exchange (1996), or the Administration Rules.

Under the Exchange Rules, the Renminbi is convertible for current account items, including the distribution of dividends, interest payments, trade and service-related foreign exchange transactions. Conversion of Renminbi for capital account items, such as direct investment, loan, security investment and repatriation of investment, however, is still subject to the approval of the PRC State Administration of Foreign Exchange, or SAFE.

Under the Administration Rules, foreign-invested enterprises may only buy, sell and/or remit foreign currencies at those banks authorized to conduct foreign exchange business after providing valid commercial documents and, in the case of capital account item transactions, obtaining approval from the SAFE. Capital investments by foreign-invested enterprises outside of China are also subject to limitations, which include approvals by the Ministry of Commerce, the SAFE and the State Reform and Development Commission.

E. Taxation

**Cayman Islands Taxation**

The Cayman Islands currently levies no taxes on individuals or corporations based upon profits, income, gains or appreciation and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to us levied by the Government of the Cayman Islands except for stamp duties which may be applicable on instruments executed in, or brought within the jurisdiction of the Cayman Islands. The Cayman Islands is not party to any double tax treaties. There are no exchange control regulations or currency restrictions in the Cayman Islands.

**Material United States Federal Income Tax Consequences**

The following summary describes the material United States federal income tax consequences of the ownership of our common shares and ADSs as of the date hereof. The discussion is applicable to United States Holders (as defined below) who hold our common shares or ADSs as capital assets. As used herein, the term "United States Holder" means a beneficial owner of a common share or ADS that is for United States federal income tax purposes:

an individual citizen or resident of the United States;

a corporation (or other entity treated as a corporation for United States federal income tax purposes) created or organized in or under the laws of the United States, any state thereof or the District of Columbia;

an estate the income of which is subject to United States federal income taxation regardless of its source; or

a trust if it (1) is subject to the primary supervision of a court within the United States and one or more United States persons have the authority to control all substantial decisions of the trust or (2) has a valid election in effect under applicable United States Treasury regulations to be treated as a United States person.

This summary does not represent a detailed description of the United States federal income tax consequences applicable to you if you are subject to special treatment under the United States federal income tax laws, including if you are:

a dealer in securities or currencies;

a financial institution;



**Table of Contents**

a regulated investment company;

a real estate investment trust;

an insurance company;

a tax-exempt organization;

a person holding our common shares or ADSs as part of a hedging, integrated or conversion transaction, a constructive sale or a straddle;

a trader in securities that has elected the mark-to-market method of accounting for your securities;

a person liable for alternative minimum tax;

a person who owns or is deemed to own 10% or more of our voting stock;

a partnership or other pass-through entity for United States federal income tax purposes; or

a person whose functional currency is not the United States dollar.

The discussion below is based upon the provisions of the Internal Revenue Code of 1986, as amended (the Code), and regulations, rulings and judicial decisions thereunder as of the date hereof, and such authorities may be replaced, revoked or modified so as to result in United States federal income tax consequences different from those discussed below. In addition, this summary is based, in part, upon representations made by the depository to us and assumes that the deposit agreement, and all other related agreements, will be performed in accordance with their terms.

If a partnership holds our common shares or ADSs, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. If you are a partner of a partnership holding our common shares or ADSs, you should consult your tax advisors.

This summary does not contain a detailed description of all the United States federal income tax consequences to you in light of your particular circumstances and does not address the effects of any state, local or non-United States tax laws. **If you are considering the purchase, ownership or disposition of our common shares or ADSs, you should consult your own tax advisors concerning the United States federal income tax consequences to you in light of your particular situation as well as any consequences arising under the laws of any other taxing jurisdiction.**

The U.S. Treasury has expressed concerns that intermediaries in the chain of ownership between the holder of an ADS and the issuer of the security underlying the ADS may be taking actions that are inconsistent with the claiming of foreign tax credits for United States holders of ADSs. Such actions would also be inconsistent with the claiming of the reduced rate of tax, described below, applicable to dividends received by certain non-corporate holders. Accordingly, the analysis of the creditability of PRC taxes and the availability of the reduced tax rate for dividends received by certain non-corporate holders, each described below, could be affected by actions taken by intermediaries in the chain of ownership between the holder of an ADS and our company.

**ADSs**

If you hold ADSs, for United States federal income tax purposes, you generally will be treated as the owner of the underlying common shares that are represented by such ADSs. Accordingly, deposits or withdrawals of common shares for ADSs will not be subject to United States federal income tax.

**Table of Contents***Taxation of Dividends*

Subject to the discussion under *Passive Foreign Investment Company* below, the gross amount of distributions on the ADSs or common shares (including any amounts withheld to reflect PRC withholding taxes) will be taxable as dividends, to the extent paid out of our current or accumulated earnings and profits, as determined under United States federal income tax principles. Such income (including withheld taxes) will be includable in your gross income as ordinary income on the day actually or constructively received by you, in the case of the common shares, or by the depository, in the case of ADSs. Such dividends will not be eligible for the dividends received deduction allowed to corporations under the Code.

With respect to non-corporate United States Holders, certain dividends received in taxable years beginning before January 1, 2013 from a qualified foreign corporation may be subject to reduced rates of taxation. A foreign corporation is treated as a qualified foreign corporation with respect to dividends received from that corporation on shares (or ADSs backed by such shares) that are readily tradable on an established securities market in the United States. United States Treasury Department guidance indicates that our ADSs (which are listed on the Nasdaq Global Market), but not our common shares, are readily tradable on an established securities market in the United States. Thus, we believe that dividends we pay on our common shares that are represented by ADSs, but not on our common shares that are not so represented, currently meet the conditions required for the reduced tax rates. There can be no assurance that our ADSs will be considered readily tradable on an established securities market in later years. A qualified foreign corporation also includes a foreign corporation that is eligible for the benefits of certain income tax treaties with the United States. In the event that we are deemed to be a Chinese (or PRC) resident enterprise under the PRC tax law, we may be eligible for the benefits of the income tax treaty between the United States and the PRC, and if we are eligible for such benefits, dividends we pay on our common shares, regardless of whether such shares are represented by ADSs, would be subject to the reduced rates of taxation. Non-corporate United States Holders that do not meet a minimum holding period requirement during which they are not protected from the risk of loss or that elect to treat the dividend income as investment income pursuant to Section 163(d)(4) of the Code will not be eligible for the reduced rates of taxation regardless of our status as a qualified foreign corporation. In addition, the rate reduction will not apply to dividends if the recipient of a dividend is obligated to make related payments with respect to positions in substantially similar or related property. This disallowance applies even if the minimum holding period has been met. You should consult your own tax advisors regarding the application of these rules to your particular circumstances.

Non-corporate United States Holders will not be eligible for reduced rates of taxation on any dividends received from us in taxable years beginning prior to January 1, 2013, if we are a PFIC in the taxable year in which such dividends are paid or in the preceding taxable year.

The amount of any dividend paid in Renminbi will equal the United States dollar value of the Renminbi received calculated by reference to the exchange rate in effect on the date the dividend is received by you, regardless of whether the Renminbi are converted into United States dollars. If the Renminbi received as a dividend are converted into United States dollars on the date they are received, you generally will not be required to recognize foreign currency gain or loss in respect of the dividend income. If the Renminbi received as a dividend are not converted into United States dollars on the date of receipt, you will have a basis in the Renminbi equal to their United States dollar value on the date of receipt. Any gain or loss realized on a subsequent conversion or other disposition of the Renminbi will be treated as United States source ordinary income or loss.

In the event that we are deemed to be a Chinese (or PRC) resident enterprise under the PRC tax law, you may be subject to PRC withholding taxes on dividends paid to you with respect to the ADSs or common shares. In that case, however, you may be able to obtain a reduced rate of PRC withholding taxes under the treaty between the United States and the PRC if certain requirements are met. In addition, subject to certain conditions and limitations, PRC withholding taxes on dividends, if any, may be treated as foreign taxes eligible for credit against your United States federal income tax liability. For purposes of calculating the foreign tax credit, dividends paid on the ADSs or common shares will be treated as foreign-source income and will generally constitute passive category income. Furthermore, in certain circumstances, if you have held the ADSs or common shares for less than a specified minimum period during which you are not protected from risk of loss, or are obligated to make payments related to the dividends, you will not

be allowed a foreign tax credit for any PRC withholding taxes imposed on dividends paid on the ADSs or common shares. The rules governing the foreign tax credit are complex. You are urged to consult your tax advisors regarding the availability of the foreign tax credit given your particular circumstances.

To the extent that the amount of any distribution exceeds our current and accumulated earnings and profits for a taxable year, as determined under United States federal income tax principles, the distribution will first be treated as a tax-free return of capital, causing a reduction in the adjusted basis of the ADSs or common shares (thereby increasing the amount of gain, or decreasing the amount of loss, to be recognized by you on a subsequent disposition of the ADSs or common shares), and the balance in excess of adjusted basis will be taxed as capital gain recognized on a sale or exchange. Consequently, such distributions in excess of our current and accumulated earnings and profits would generally not give rise to foreign source income and you would generally not be able to use the foreign tax credit arising from any PRC withholding tax imposed on such distributions unless such credit can be applied (subject to applicable limitations) against United States federal income tax due on other foreign source income in the appropriate category for foreign tax credit purposes. However, we do not expect to keep earnings and profits in accordance with United States federal income tax principles. Therefore, you should expect that a distribution will generally be treated as a dividend (as discussed above).

**Table of Contents**

*Passive Foreign Investment Company*

Based on our financial statements, relevant market data, and the projected composition of our income and valuation of our assets, including goodwill, we do not believe that we were a PFIC for 2009, and we do not expect to be a PFIC for 2010 or to become one in the foreseeable future, although there can be no assurance in this regard. In general, we will be a PFIC for any taxable year in which:

at least 75% of our gross income is passive income, or

at least 50% of the value (determined based on a quarterly average) of our assets is attributable to assets that produce or are held for the production of passive income.

For this purpose, passive income generally includes dividends, interest, royalties and rents (other than royalties and rents derived in the active conduct of a trade or business and not derived from a related person). If we own at least 25% (by value) of the stock of another corporation, we will be treated, for purposes of the PFIC tests, as owning our proportionate share of the other corporation's assets and receiving our proportionate share of the other corporation's income.

The determination of whether we are a PFIC is made annually. Accordingly, it is possible that we may become a PFIC in the current or any future taxable year due to changes in our asset or income composition. Because we have valued our goodwill based on the market value of our equity, a decrease in the price of our ADSs may also result in our becoming a PFIC. In addition, there exist substantial uncertainties regarding the application, interpretation and enforcement of relevant current and future PRC laws and regulations and their potential effect on our corporate structure and contractual arrangements with certain of our consolidated affiliated PRC entities. Further, even if the uncertainties as to PRC laws and regulations did not exist, there are also substantial uncertainties as to the treatment of our corporate structure and ownership of these consolidated affiliated PRC entities for U.S. federal income tax purposes. If it is determined that we do not own the stock of the consolidated affiliated PRC entities for U.S. federal income tax purposes, we would likely be treated as a PFIC for 2009 and any taxable year thereafter. If we are a PFIC for any taxable year during which you hold our ADSs or common shares, you will be subject to special tax rules discussed below.

If we are a PFIC for any taxable year during which you hold our ADSs or common shares, you will be subject to special tax rules with respect to any excess distribution received and any gain realized from a sale or other disposition, including a pledge, of ADSs or common shares. Distributions received in a taxable year that are greater than 125% of the average annual distributions received during the shorter of the three preceding taxable years or your holding period for the ADSs or common shares will be treated as excess distributions. Under these special tax rules:

the excess distribution or gain will be allocated ratably over your holding period for the ADSs or common shares,

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

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

In addition, non-corporate United States Holders will not be eligible for reduced rates of taxation on any dividends received from us in taxable years beginning prior to January 1, 2013, if we are a PFIC in the taxable year in which such dividends are paid or in the preceding taxable year. You will be required to file Internal Revenue Service Form 8621 if you hold our ADSs or common shares in any year in which we are classified as a PFIC.

**Table of Contents**

If we are a PFIC for any taxable year during which you hold our ADSs or common shares and any of our non-United States subsidiaries is also a PFIC, a United States Holder would be treated as owning a proportionate amount (by value) of the shares of the lower-tier PFIC for purposes of the application of these rules. You are urged to consult your tax advisors about the application of the PFIC rules to any of our subsidiaries.

In certain circumstances, in lieu of being subject to the excess distribution rules discussed above, you may make an election to include gain on the stock of a PFIC as ordinary income under a mark-to-market method, provided that such stock is regularly traded on a qualified exchange. Under current law, the mark-to-market election may be available to holders of ADSs because the ADSs are listed on the Nasdaq Global Market, which constitutes a qualified exchange, although there can be no assurance that the ADSs will be regularly traded for purposes of the mark-to-market election. It should be noted that only the ADSs, and not the common shares, are listed on the Nasdaq Global Market. Consequently, if you are a holder of common shares that are not represented by ADSs, you generally will not be eligible to make a mark-to-market election if we are or were to become a PFIC. If you make an effective mark-to-market election, you will include in each year as ordinary income the excess of the fair market value of your ADSs at the end of the year over your adjusted tax basis in the ADSs. You will be entitled to deduct as an ordinary loss in each such year the excess of your adjusted tax basis in the ADSs over their fair market value at the end of the year, but only to the extent of the net amount previously included in income as a result of the mark-to-market election. If you make an effective market-to-market election, any gain you recognize upon the sale or other disposition of your ADSs will be treated as ordinary income and any loss will be treated as ordinary loss, but only to the extent of the net amount previously included in income as a result of the mark-to-market election.

Your adjusted tax basis in the ADSs will be increased by the amount of any income inclusion and decreased by the amount of any deductions under the mark-to-market rules. If you make a mark-to-market election it will be effective for the taxable year for which the election is made and all subsequent taxable years unless the ADSs are no longer regularly traded on a qualified exchange or the Internal Revenue Service consents to the revocation of the election. You are urged to consult your tax advisor about the availability of the mark-to-market election, and whether making the election would be advisable in your particular circumstances.

A U.S. investor in a PFIC generally can mitigate the consequences of the rules described above by electing to treat the PFIC as a qualified electing fund under Section 1295 of the Code. However, this option is not available to you because we do not intend to comply with the requirements necessary to permit you to make this election. You are urged to consult your tax advisors concerning the United States federal income tax consequences of holding ADSs or common shares if we are considered a PFIC in any taxable year.

*Taxation of Capital Gains*

For United States federal income tax purposes and subject to the discussion under *Passive Foreign Investment Company* above, you will recognize taxable gain or loss on any sale or exchange of ADSs or common shares in an amount equal to the difference between the amount realized for the ADSs or common shares and your tax basis in the ADSs or common shares. Such gain or loss will generally be capital gain or loss. Capital gains of individuals derived with respect to capital assets held for more than one year are eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations. Any gain or loss recognized by you will generally be treated as United States source gain or loss. Consequently, you may not be able to use the foreign tax credit arising from any PRC tax imposed on the disposition of our ADSs or common share unless such credit can be applied (subject to applicable limitations) against tax due on other income treated as derived from foreign sources. You are urged to consult your tax advisors regarding the tax consequences if PRC tax is imposed on gain on a disposition of our ADSs or common shares, including the availability of the foreign tax credit under your particular circumstances.

*Information Reporting and Backup Withholding*

In general, information reporting will apply to dividends in respect of our ADSs or common shares and the proceeds from the sale, exchange or redemption of our ADSs or common shares that are paid to you within the United States (and in certain cases, outside the United States), unless you are an exempt recipient. A backup withholding tax may apply to such payments if you fail to provide a taxpayer identification number or certification of other exempt status or fail to report in full dividend and interest income.



**Table of Contents**

Any amounts withheld under the backup withholding rules will be allowed as a refund or a credit against your United States federal income tax liability provided the required information is furnished to the Internal Revenue Service in a timely manner.

F. Dividends and Paying Agents

Not applicable.

G. Statement by Experts

Not applicable.

H. Documents on Display

We have filed this annual report, including exhibits, with the SEC. As allowed by the SEC, in Item 19 of this annual report, we incorporate by reference certain information we filed with the SEC. This means that we can disclose important information to you by referring you to another document filed separately with the SEC. The information incorporated by reference is considered to be part of this annual report.

You may read and copy this annual report, including the exhibits incorporated by reference in this annual report, at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549 and at the SEC's regional offices in New York, New York and Chicago, Illinois. You can also request copies of this annual report, including the exhibits incorporated by reference in this annual report, upon payment of a duplicating fee, by writing information on the operation of the SEC's Public Reference Room.

The SEC also maintains a website at [www.sec.gov](http://www.sec.gov) that contains reports, proxy statements and other information regarding registrants that file electronically with the SEC. Our annual report and some of the other information submitted by us to the SEC may be accessed through this web site.

As a foreign private issuer, we are exempt from the rules under the Exchange Act prescribing the furnishing and content of quarterly reports and proxy statements, and officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act.

Our financial statements have been prepared in accordance with U.S. GAAP.

We will furnish our shareholders with annual reports, which will include a review of operations and annual audited consolidated financial statements prepared in conformity with U.S. GAAP.

I. Subsidiary Information

For a listing of our subsidiaries, see Item 4. Information on the Company C. Organizational Structure

**Item 11. Quantitative and Qualitative Disclosures About Market Risk**

***Foreign Exchange Risk***

Substantially all of our revenues, costs and expenses are denominated in Renminbi. Although the conversion of the Renminbi is highly regulated in China, the value of the Renminbi against the value of the U.S. dollar or any other currency nonetheless may fluctuate and be affected by, among other things, changes in China's political and economic conditions. Under the currency policy in effect in China today, the value of the Renminbi is permitted to fluctuate within a narrow band against a basket of certain foreign currencies. China is currently under significant international pressures to liberalize this government currency policy, and if such liberalization were to occur, the value of the Renminbi could appreciate or depreciate against the U.S. dollar.

**Table of Contents**

We use the U.S. dollar as the reporting currency for our financial statements. Our company's functional currency is the U.S. dollar and the functional currency of our PRC subsidiaries is the Renminbi. All of our subsidiary's transactions in currencies other than the Renminbi during the year are recorded at the exchange rates prevailing on the relevant dates of such transactions. Monetary assets and liabilities of our subsidiary existing at the balance sheet date denominated in currencies other than the Renminbi are re-measured at the exchange rates prevailing on such date. Exchange differences are recorded in our consolidated statements of operations. Fluctuations in exchange rates may also affect our consolidated financial statements and operations. For example, to the extent that we need to convert U.S. dollars received in our public offering in August 2008 into Renminbi for our operations, appreciation of the Renminbi against the U.S. dollar would have an adverse effect on the amount of Renminbi that we receive from the conversion. Conversely, if we decide to convert Renminbi into U.S. dollars for the purpose of making payments for dividends on our common shares or ADSs or for other business purposes, appreciation of the U.S. dollar against the Renminbi would have a negative effect on the U.S. dollar amounts available to us. Except for certain cash balances, majority of our transactions are denominated in Renminbi. Considering the amount of our cash balance as of December 31, 2009, a 1.0% change in the exchange rates between the Renminbi and the U.S. dollar will result in an increase or decrease of RMB4.0 million (US\$0.6 million) for our total amount of cash balance, with a corresponding increase or decrease in operating profit.

We do not believe that we currently have any significant direct foreign exchange risk and have not used any derivative financial instruments to hedge exposure in foreign exchange risk.

***Interest Rate Risk***

Our risk exposure to changes in interest rates relates primarily to the interest income generated by cash deposited in interest-bearing savings accounts and interest expenses arising from bank borrowings.

On December 3, 2009, we entered into a credit facility agreement with the Bank of China to provide a maximum loan amount of RMB 400 million (US\$58.5 million). The long-term loan under this credit facility may be drawn at any time within two years from the effective date of the agreement and will mature two years after it is drawn. The loan, when drawn, will carry a floating interest rate equal to of 90% of the People's Bank of China benchmark rate. As of December 31, 2009, we had a two-year loan of US\$0.7 million under this credit facility.

As of December 31, 2009, we had a short-term loan of \$40.8 million with Macau Branch of Bank of China, which was secured by RMB equivalent of US\$64.4 million pledged with Shenzhen Branch of the Bank of China, with the balance of US\$20.4 million available as short-term funds for future needs. The loan carried an annual interest ranging from 1.59% to 1.72% and the pledged deposits carried an annual interest rate of 2.25%.

As of December 31, 2009, we have no significant exposure to change of interest rate as (i) our short-term borrowing rate was similar with the interest rate of our pledged deposits, (ii) immateriality of our long-term loan balance. Our management monitors the banks' prime rates in conjunction with our cash requirements to determine the appropriate level of debt balances relative to other sources of funds. We have not used, and do not expect to use in the future, any derivative financial instruments to hedge our interest risk exposure.

**Item 12. Description of Securities Other Than Equity Securities****A. Debt Securities**

Not applicable

**B. Warrants and Rights**

Not applicable

**C. Other Securities**

Not applicable



**Table of Contents****D. American Depositary Shares*****Depositary Fees***

Under the terms of the deposit agreement for our ADSs, an ADS holder may have to pay the following service fees to the depositary:

<b>Service</b>	<b>Fees</b>
Issuance of ADSs	Up to US\$0.05 per ADS issued
Cancellation of ADSs	Up to US\$0.05 per ADS cancelled
Distribution of cash dividends or other cash distributions	Up to US\$0.02 per ADS held
Distribution of ADSs pursuant to stock dividends, free stock distributions or exercises of rights	Up to US\$0.05 per ADS held
Distribution of securities other than ADSs or rights to purchase additional ADSs	Up to US\$0.05 per ADS held

***Depositary Charges***

In addition, an ADS holder shall be responsible for the following charges: taxes and other governmental charges;

such registration fees as may from time to time be in effect for the registration of common shares or other deposited securities on the share register and applicable to transfers of common shares or other deposited securities to or from the name of the custodian, the depositary or any nominees upon the making of deposits and withdrawals, respectively;

such cable, telex and facsimile transmission and delivery expenses as are expressly provided in the deposit agreement to be at the expense of ADS holders and beneficial owners of ADSs;

the expenses and charges incurred by the depositary in the conversion of foreign currency; and

the fees and expenses incurred by the depositary, the custodian or any nominee in connection with the servicing or delivery of deposited securities.

Depositary fees payable upon the issuance and cancellation of ADSs are typically paid to the depositary by the brokers (on behalf of their clients) receiving the newly-issued ADSs from the depositary and by the brokers (on behalf of their clients) delivering the ADSs to the depositary for cancellation. The brokers in turn charge these transaction fees to their clients.

Depositary fees payable in connection with distributions of cash or securities to ADS holders and the depositary services fee are charged by the depositary to the holders of record of ADSs as of the applicable ADS record date. The depositary fees payable for cash distributions are generally deducted from the cash being distributed. In the case of distributions other than cash (i.e., stock dividends, rights offerings), the depositary charges the applicable fee to the ADS record date holders concurrent with the distribution. In the case of ADSs registered in the name of the investor (whether certificated or un-certificated in direct registration), the depositary sends invoices to the applicable record date ADS holders. In the case of ADSs held in brokerage and custodian accounts via the central clearing and settlement system, The Depository Trust Company, or DTC, the depositary generally collects its fees through the systems provided by DTC (whose nominee is the registered holder of the ADSs held in DTC) from the brokers and custodians holding ADSs in their DTC accounts. The brokers and custodians who hold their clients' ADSs in DTC accounts in turn charge their clients' accounts the amount of the fees paid to the depositary.

In the event of refusal to pay the depositary fees, the depositary may, under the terms of the deposit agreement, refuse the requested service until payment is received or may set off the amount of the depositary fees from any distribution to be made to the ADS holder.

The fees and charges ADS holders may be required to pay may vary over time and may be changed by us and by the depositary. ADS holders will receive prior notice of such changes.



**Table of Contents****Payments by Depositary**

In 2009, we received the following payments from The Bank of New York Mellon, the depositary bank for our ADR program:

<b>Item</b>	<b>US\$ (in thousands)</b>
Reimbursement of investor relations efforts	609
Reimbursement of legal fees	61
Reimbursement of Nasdaq listing fees	5
Reimbursement of proxy process expenses	
Reimbursement of SEC filing fees	29
Reimbursement of Sarbanes-Oxley and accounting-related expenses in connection with ongoing SEC compliance and listing requirements	
Reimbursement of other ADR program-related expenses	102
<b>Total</b>	<b>806</b>

**Part II****Item 13. Defaults, Dividend Arrearages and Delinquencies**

None.

**Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds****Material Modifications to the Rights of Securities Holders**

See Item 10. Additional Information for a description of the rights of securities holders, which remain unchanged.

**Use of Proceeds**

We completed our initial public offering of 13,500,000 common shares, in the form of ADSs, at US\$8.00 per ADS in December 2007, after our common shares and American Depositary Receipts were registered under the Securities Act. The aggregate price of the offering amount registered and sold was US\$108.0 million, of which we received net proceeds of US\$96.9 million. The effective date of our registration statement on Form F-1 (File number: 333-147275) was December 5, 2007. Credit Suisse and Merrill Lynch were the joint global coordinators and book runners for the global offering of our ADSs.

We completed a subsequent public offering of 1,000,000 common shares, in the form of ADSs, at US\$16.00 per ADS in August 2008, after our common shares and American Depositary Receipts were registered under the Securities Act. The aggregate price of the offering amount registered and sold was US\$18.4 million, of which we received net proceeds of US\$17.6 million. The effective date of our registration statement of Form F-1 (File number: 333-152726) was August 1, 2008. Credit Suisse, Morgan Stanley and Merrill Lynch were the joint global coordinators and book runners for the global offering of our ADSs.

As of March 31, 2010, approximately US\$80.4 million of the net proceeds from our public offerings has been used for acquisitions of six advertising agency companies and Digital Media Group and capital expenditures, and approximately US\$35.0 million has been used for general corporate purposes. We are continuously examining opportunities to expand our business through merger and acquisitions, organic growth and strategic alliances with our business partners, and anticipate that the remaining amount of the net proceeds from our initial public offering may be used for such purposes.

**Table of Contents**

**Item 15. Controls and Procedures**

**Disclosure Controls and Procedures**

As of the end of the period covered by this annual report, an evaluation has been carried out under the supervision and with the participation of our management, including our chief executive officer and our chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended. Based on that evaluation, our chief executive officer and chief financial officer have concluded that our disclosure controls and procedures are effective in ensuring that material information required to be disclosed in this annual report is recorded, processed, summarized and reported to them for assessment, and required disclosure is made within the time period specified in the rules and forms of the Securities and Exchange Commission.

We believe that a system of disclosure controls and procedures, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the controls and procedures are met.

**Management's Annual Report on Internal Control over Financial Reporting.**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended, for our company.

Because of its inherent limitations, a system of internal control over financial reporting can provide only reasonable assurance with respect to consolidated financial statement preparation and presentation and may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As required by Section 404 of the Sarbanes-Oxley Act of 2002 and related rules as promulgated by the Securities and Exchange Commission, management assessed the effectiveness of the internal control over financial reporting as of December 31, 2009 using criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Based on this assessment, management concluded that the our internal control over financial reporting was effective as of December 31, 2009 based on the criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

The effectiveness of internal control over financial reporting as of December 31, 2009 has been audited by Deloitte Touche Tohmatsu, an independent registered public accounting firm, who has also audited our consolidated financial statements for the year ended December 31, 2009.

**Table of Contents**

**Attestation Report of the Independent Registered Public Accounting Firm**

To the Board of Directors and the Shareholders of VisionChina Media Inc.:

We have audited the internal control over financial reporting of VisionChina Media Inc. and its subsidiaries and variable interest entity (the Company) as of December 31, 2009, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule as of and for the year ended December 31, 2009 of the Company, and our report dated June 23, 2010 expressed an unqualified opinion on those consolidated financial statements and financial statement schedule.

/s/ DELOITTE TOUCHE TOHMATSU

Certified Public Accountants

Hong Kong

June 23, 2010

***Changes in Internal Control Over Financial Reporting***

There were no changes in our internal control over financial reporting that occurred during the year ended December 31, 2009 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Item 16A. Audit Committee Financial Expert**

Our Board of Directors has determined that William Decker qualify as audit committee financial expert as defined in Item 16A of Form 20-F. Each of the members of the Audit Committee is an independent director within the meaning of NYSE Manual Section 303A(2) and meet the criteria for independent set forth in Section 10A(m)(3) of the Exchange Act.

**Table of Contents****Item 16B. Code of Ethics**

Our board of directors has adopted a code of ethics that applies to our directors, officers, employees and agents, including certain provisions that specifically apply to our Chief Executive Officer, Chief Financial Officer, Chief Strategy Officer, Chief Administrative Officer, Vice Presidents, Financial Controller and any other persons who perform similar functions for us. We have filed our code of business conduct and ethics as an exhibit to our registration statement on Form F-1. We hereby undertake to provide to any person without charge, a copy of our code of business conduct and ethics within ten working days after we receive such person's written request.

**Item 16C. Principal Accountant Fees and Services**

The following table sets forth the aggregate fees by categories specified below in connection with certain professional services rendered by Deloitte Touche Tohmatsu, our principal external auditors. We did not pay any other fees to our auditors during the periods indicated below.

	<b>For the Year Ended</b>	
	<b>December 31,</b>	
	<b>2008</b>	<b>2009</b>
	(US\$)	
Audit Fees <sup>(1)</sup>	650,000	850,000
Audit-Related Fees <sup>(2)</sup>		
Tax Fees <sup>(3)</sup>		
Other Fees <sup>(4)</sup>	200,000	
Total	850,000	850,000

(1) Audit fees include the aggregate fees billed in each of the fiscal period listed for professional services rendered by our principal auditors for the audit of our annual financial statements and internal control over financial reporting.

(2) Audit-related fees include the aggregate fees billed in each of fiscal period listed for assurance and

related services by our principal auditors that are reasonably related to the performance of audit or review of our annual financial statements not reported under our audit fees.

(3) Tax fees include fees billed for tax consultations.

(4) Other fees include the aggregate fees billed for assurance and related services by our principal auditors that are reasonably related to the performance of the audit or review of our financial statements and are not reported under audit fees. Services comprising the fees disclosed under the category of other fees involve principally the issue of comfort letters in 2008 and rendering of listing advice in connection with our follow-on offering in 2008.



The policy of our audit committee or our board of directors is to pre-approve all audit and non-audit services provided by Deloitte Touche Tohmatsu, including audit services, audit-related services, tax services and other services as described above, other than those for *de minimis* services which are approved by the Audit Committee or our board of directors prior to the completion of the audit.

**Item 16D. Exemptions From the Listing Standards For Audit Committees**

Not applicable.

**Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers.**

On November 14, 2008, our board of directors authorized a share repurchase program, under which we may repurchase up to US\$50 million worth of our issued and outstanding ADSs from the open market from time to time and before December 31, 2009. As of December 31, 2009, we have repurchased 940,380 of our ADSs for a total purchase price of approximately US\$5.0 million pursuant to this program. All of the repurchased shares have been retired from our outstanding common shares. The repurchases were made on the open market at prevailing market prices or in block trades and subject to restrictions relating to volume, price and timing. Set for below contains certain information regarding our share repurchase program.

**Table of Contents**

<b>Period</b>	<b>Total Number of ADSs Purchased</b>	<b>Average Price Paid per ADS (US\$)</b>	<b>Total Number of ADSs Purchased Under the Program</b>	<b>Approximate Value of ADSs that May Yet be Purchased Under the Program<sup>(1)</sup> (US\$ in thousands)</b>
2008				
December	281,400	5.1360	281,400	48,557
2009				
January	23,775	5.4962	23,775	48,426
February	2,550	5.5000	2,550	48,412
March	346,087	5.4155	346,087	46,543
April	286,568	5.3827	286,568	45,000
Total	940,380	5.3241	940,380	45,000

(1) According to the share repurchase program, we may repurchase up to US\$50 million worth of our issued and outstanding ADSs from the open market from time to time and before December 31, 2009.

**ITEM 16F. Change in Registrant's Certifying Accountant**

Not applicable.

**ITEM 16G. Corporate Governance**

Rule 5615(a)(3) of the Nasdaq Listing Rules permits foreign private issuers like us to follow home country practice with respect to certain corporate governance matters. We are not aware of any significant ways in which our corporate governance practices differ from those followed by U.S. domestic companies under the Nasdaq Listing Rules.

**Part III****Item 17. Financial Statements**

We have elected to provide financial statements pursuant to Item 18.

**Item 18. Financial Statements**

The following financial statements are filed as part of this annual report, together with the report of the independent auditors:

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets as of December 31, 2008 and 2009

Consolidated Statements of Operations for the years ended December 31, 2007, 2008 and 2009

Consolidated Statements of Changes of Shareholders' Equity and Comprehensive Income for the years ended December 31, 2007, 2008 and 2009

Consolidated Statements of Cash Flows for the years ended December 31, 2007, 2008 and 2009

Notes to the Consolidated Financial Statements

Condensed Financial Information of Registrant    Schedule I  
100

---

**Table of Contents**

**Item 19. Exhibits**

Exhibit Number	Description of Document
1.1	Memorandum and Articles of Association of VisionChina Media Inc. (incorporated by reference to Exhibit 3.1 from our F-1 registration statement (File No. 333-147275), as amended, initially filed with the Commission on November 9, 2007)
1.2	Form of Second Amended and Restated Memorandum and Articles of Association of VisionChina Media Inc. (incorporated by reference to Exhibit 3.2 from our F-1 registration statement (File No. 333-147275), as amended, initially filed with the Commission on November 9, 2007)
2.1	Specimen Certificate for Common Shares of VisionChina Media Inc. (incorporated by reference to Exhibit 4.2 from our F-1 registration statement (File No. 333-147275), as amended, initially filed with the Commission on November 9, 2007)
2.2	Form of American Depositary Receipt of VisionChina Media Inc. (incorporated by reference to Exhibit 4.1 from our F-1 registration statement (File No. 333-147275), as amended, initially filed with the Commission on November 9, 2007)
2.3	Form of Deposit Agreement among VisionChina Media Inc., the depositary and owners and beneficial owners of the American Depositary Receipts (incorporated by reference to Exhibit 4.3 from our F-1 registration statement (File No. 333-147275), as amended, initially filed with the Commission on November 9, 2007)
4.1	Share Purchase Agreement, dated April 12, 2006, in respect of the sale of Series A preferred shares of the Registrant (incorporated by reference to Exhibit 4.4 from our F-1 registration statement (File No. 333-147275), as amended, initially filed with the Commission on November 9, 2007)
4.2	Share Purchase Agreement, dated March 9, 2007, in respect of the sale of Series B preferred shares of the Registrant (incorporated by reference to Exhibit 4.5 from our F-1 registration statement (File No. 333-147275), as amended, initially filed with the Commission on November 9, 2007)
4.3	Shareholders Agreement, dated April 12, 2006, among the Registrant and certain investors in Registrant's Series A preferred shares (incorporated by reference to Exhibit 4.6 from our F-1 registration statement (File No. 333-147275), as amended, initially filed with the Commission on November 9, 2007)
4.4	Amended and Restated Shareholders Agreement, dated March 9, 2007, among the Registrant and certain investors in Registrant's Series A preferred shares and certain investors in Registrant's Series B preferred shares (incorporated by reference to Exhibit 4.7 from our F-1 registration statement (File No. 333-147275), as amended, initially filed with the Commission on November 9, 2007)
4.5	Amendment No. 1 to the Amended and Restated Shareholders Agreement, dated November 8, 2007, among the same parties (incorporated by reference to Exhibit 4.8 from our F-1 registration statement (File No. 333-147275), as amended, initially filed with the Commission on November 9, 2007)
4.6	Registrant's 2006 Share Incentive Plan (initially filed with the Commission on November 9, 2007)
4.7	

Form of Indemnification Agreement with the Registrant's directors (incorporated by reference to Exhibit 10.2 from our F-1 registration statement (File No. 333-147275), as amended, initially filed with the Commission on November 9, 2007)

**Table of Contents**

Exhibit Number	Description of Document
4.8	Translation of Loan Agreement dated February 15, 2007 among China Digital Technology Consulting (Shenzhen) Co., Ltd. and Limin Li and Yanqing Liang. (incorporated by reference to Exhibit 10.3 from our F-1 registration statement (File No. 333-147275), as amended, initially filed with the Commission on November 9, 2007)
4.9	Translation of Loan Agreement dated March 31, 2006 among China Digital Technology Consulting (Shenzhen) Co., Ltd. and Limin Li and Yanqing Liang. (incorporated by reference to Exhibit 10.4 from our F-1 registration statement (File No. 333-147275), as amended, initially filed with the Commission on November 9, 2007)
4.10	Translation of Technology Service and Management Agreement dated February 15, 2007 between China Digital Technology Consulting (Shenzhen) Co., Ltd. and China Digital Mobile Television Co., Ltd. (incorporated by reference to Exhibit 10.5 from our F-1 registration statement (File No. 333-147275), as amended, initially filed with the Commission on November 9, 2007)
4.11	Translation of Technology Service and Management Agreement dated March 31, 2006 between China Digital Technology Consulting (Shenzhen) Co., Ltd. and China Digital Mobile Television Co., Ltd. (incorporated by reference to Exhibit 10.6 from our F-1 registration statement (File No. 333-147275), as amended, initially filed with the Commission on November 9, 2007)
4.12	Translation of Domain Name License Agreement dated February 15, 2007 between China Digital Technology Consulting (Shenzhen) Co., Ltd. and China Digital Mobile Television Co., Ltd. (incorporated by reference to Exhibit 10.7 from our F-1 registration statement (File No. 333-147275), as amended, initially filed with the Commission on November 9, 2007)
4.13	Translation of Domain Name License Agreement dated March 31, 2006 between China Digital Technology Consulting (Shenzhen) Co., Ltd. and China Digital Mobile Television Co., Ltd. (incorporated by reference to Exhibit 10.8 from our F-1 registration statement (File No. 333-147275), as amended, initially filed with the Commission on November 9, 2007)
4.14	Translation of Option Agreement dated February 15, 2007 among China Digital Technology Consulting (Shenzhen) Co., Ltd. and Limin Li and Yanqing Liang. (incorporated by reference to Exhibit 10.9 from our F-1 registration statement (File No. 333-147275), as amended, initially filed with the Commission on November 9, 2007)
4.15	Translation of Option Agreement dated March 31, 2006 among China Digital Technology Consulting (Shenzhen) Co., Ltd. and Limin Li and Yanqing Liang. (incorporated by reference to Exhibit 10.10 from our F-1 registration statement (File No. 333-147275), as amended, initially filed with the Commission on November 9, 2007)
4.16	Translation of Proxy Letter dated March 31, 2006 and Amendment to Proxy Letter dated February 15, 2007 of Limin Li. (incorporated by reference to Exhibit 10.11 from our F-1 registration statement (File No. 333-147275), as amended, initially filed with the Commission on November 9, 2007)
4.17	Translation of Proxy Letter dated March 31, 2006 and Amendment to Proxy Letter dated February 15, 2007 of Yanqing Liang (incorporated by reference to Exhibit 10.12 from our F-1 registration statement



**Table of Contents**

Exhibit Number	Description of Document
4.18	Translation of Equity Pledge Agreement dated February 15, 2007 among China Digital Technology Consulting (Shenzhen) Co., Ltd. and Limin Li and Yanqing Liang (incorporated by reference to Exhibit 10.13 from our F-1 registration statement (File No. 333-147275), as amended, initially filed with the Commission on November 9, 2007)
4.19	Translation of Equity Pledge Agreement dated March 31, 2006 among China Digital Technology Consulting (Shenzhen) Co., Ltd. and Limin Li and Yanqing Liang (incorporated by reference to Exhibit 10.14 from our F-1 registration statement (File No. 333-147275), as amended, initially filed with the Commission on November 9, 2007)
4.20	Translation of Cooperation Agreement dated October 13, 2006 between China Digital Mobile Television Co., Ltd. and Beijing Beiguang Media Mobile Television Co., Ltd. (incorporated by reference to Exhibit 10.15 from our F-1 registration statement (File No. 333-147275), as amended, initially filed with the Commission on November 9, 2007)
4.21	Translation of Advertising Time on Bus Mobile Television Platform in Shenzhen Exclusive Agency Agreement dated December 31, 2006 between China Digital Mobile Television Co., Ltd. and Shenzhen Mobile Television Co., Ltd. (incorporated by reference to Exhibit 10.16 from our F-1 registration statement (File No. 333-147275), as amended, initially filed with the Commission on November 9, 2007)
4.22	Amended and Restated Agreement and Plan of Merger dated November 16, 2009, among VisionChina Media Inc., Vision Best Limited, Digital Value Holdings Limited, Digital Media Group Company Limited and the Shareholder Representative
4.23	Registration Rights Agreement dated as of November 16, 2009 among VisionChina Media Inc. and the investors signatories thereto
4.24	Translation of RMB Loan Agreement, dated as of December 3, 2009, between VisionChina Media Group Inc., and Bank of China, Shenzhen Branch
4.25	Translation of Guarantee Contract between VisionChina Digital Company and Bank of China Shenzhen Branch
4.26*	Securities Purchase Agreement, dated as of December 30, 2010 by and among VisionChina Media Inc., Focus Media Holding Limited and the other investors named therein
4.27*	Shareholders Agreement, dated as of January 13, 2011 by and among Focus Media Holding Limited, JJ Media Investment Holding Limited, Front Lead Investments Limited, Limin Li, and VisionChina Media Inc.
4.28*	Registration Right Agreement, dated as of January 13, 2011 by and among VisionChina Media Inc., Focus Media Holding Limited, JJ Media Investment Holding Limited, and Front Lead Investments Limited
8.1	List of Subsidiaries
11.1	



Code of Business Conduct and Ethics (incorporated by reference to Exhibit 99.1 from our F-1 registration statement (File No. 333-147275), as amended, initially filed with the Commission on November 29, 2007)

- 12.1\* CEO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 12.2\* CFO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 13.1\* CEO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 13.2\* CFO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 23.1\* Consent of Independent Registered Public Accounting Firm

\* Filed with this annual report

Portions of this document have been omitted pursuant to a confidential treatment request and have been filed separately with the Commission.

**Table of Contents**

**SIGNATURES**

The registrant hereby certifies that it meets all of the requirements for filing its annual report on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

VISIONCHINA MEDIA INC.

By /s/ Limin Li

Name: Limin Li

Title: Chairman and Chief Executive Officer

Date: January 21, 2011

**VISIONCHINA MEDIA INC.**

	<b>PAGE</b>
<u>REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM</u>	F-2
<u>CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2008 AND 2009</u>	F-3 & F-4
<u>CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2007, 2008 AND 2009</u>	F-5
<u>CONSOLIDATED STATEMENTS OF CHANGES OF EQUITY AND COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2007, 2008 AND 2009</u>	F-6
<u>CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2007, 2008 AND 2009</u>	F-7
<u>NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS</u>	F-8 F-42
<u>CONDENSED FINANCIAL INFORMATION OF REGISTRANT SCHEDULE I</u>	F-43 F-47
F-1	

---

**Table of Contents**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and the Shareholders of VisionChina Media Inc.:

We have audited the accompanying consolidated balance sheets of VisionChina Media Inc. and subsidiaries and variable interest entity (the Company) as of December 31, 2008 and 2009, and the related consolidated statements of operations, changes of equity and comprehensive income, and cash flows for each of the three years in the period ended December 31, 2009 and the related financial statement schedule listed in the Index as Schedule I. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2008 and 2009, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2009, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as whole, presents fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2009, based on the criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated June 23, 2010 expressed an unqualified opinion on the Company's internal control over financial reporting.

DELOITTE TOUCHE TOHMATSU

Certified Public Accountants

Hong Kong

June 23, 2010

F-2

---

**Table of Contents**

VISIONCHINA MEDIA INC.  
CONSOLIDATED BALANCE SHEETS  
(Amounts in U.S. Dollars ( \$ ), except number of shares)

	Notes	December 31,	
		2008	2009
<b>ASSETS</b>			
<b>Current Assets:</b>			
Cash and cash equivalents		\$ 163,248,286	\$ 68,834,087
Restricted cash			64,368,455
Accounts receivable, net of allowance for doubtful accounts of \$612,135 and \$1,177,190 as of December 31, 2008 and 2009, respectively	4	38,296,590	37,050,076
Amounts due from related parties	19	5,225,564	4,334,472
Prepaid expenses and other current assets	5	9,431,279	10,049,007
Deferred tax assets	15	273,325	41,309
<b>Total current assets</b>		<b>\$ 216,475,044</b>	<b>\$ 184,677,406</b>
<b>Non-current Assets:</b>			
Fixed assets, net	8	\$ 10,205,784	\$ 9,192,741
Investments under equity method	9	7,686,065	6,670,189
Other investments	10	2,276,034	2,660,189
Long-term prepayments and deposits	6	21,888,068	65,241,570
Intangible assets	7	14,034,343	11,455,972
Goodwill	3	21,074,229	109,017,669
<b>Total non-current assets</b>		<b>\$ 77,164,523</b>	<b>\$ 204,238,330</b>
<b>TOTAL ASSETS</b>		<b>\$ 293,639,567</b>	<b>\$ 388,915,736</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current Liabilities:</b>			
Short-term bank loan	12	\$	\$ 40,800,000
Accounts payable		1,237,262	2,311,224
Amounts due to related parties	19	786,284	213,029
Consideration payable	3	30,734,610	47,873,901
Income tax payable		39,209	2,411,156
Accrued expenses and other current liabilities	11	9,507,341	9,326,208
<b>Total current liabilities</b>		<b>\$ 42,304,706</b>	<b>\$ 102,935,518</b>
<b>Non-current Liabilities:</b>			
Long-term bank loan	12	\$	\$ 731,294
Consideration payable	3	2,776,173	9,330,085

Deferred tax liabilities	15	2,924,073	2,503,125
<b>Total non-current liabilities</b>		5,700,246	12,564,504
Total liabilities		\$ 48,004,952	\$ 115,500,022
Commitments and contingency	17		

F-3

---

**Table of Contents**

VISIONCHINA MEDIA INC.  
 CONSOLIDATED BALANCE SHEETS  
 (Amounts in U.S. Dollars ( \$ ), except number of shares)

	Note	December 31,	
		2008	2009
<b>Equity</b>			
Common shares (\$0.0001 par value; 200,000,000 shares authorized; 71,819,442 and 72,140,684 shares issued and outstanding as of December 31, 2008 and 2009, respectively)	13	\$ 7,182	\$ 7,214
Additional paid-in capital		190,694,719	192,362,565
Accumulated profits		43,509,296	70,112,299
Accumulated other comprehensive income		10,862,017	10,499,278
<b>Total VisionChina Media Inc. shareholders equity</b>		<b>\$ 245,073,214</b>	<b>\$ 272,981,356</b>
Noncontrolling interest		561,401	434,358
Total equity		245,634,615	273,415,714
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>\$ 293,639,567</b>	<b>\$ 388,915,736</b>

The accompanying notes are an integral part of these consolidated financial statements.

F-4

---

**Table of Contents**

VISIONCHINA MEDIA INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(Amounts in U.S. Dollars ( \$ ), except number of shares)

	Note	Year ended December 31,		
		2007	2008	2009
<b>Revenues:</b>				
Advertising service revenue		\$ 27,489,391	\$ 103,515,250	\$ 120,686,086
Advertising equipment revenue		1,896,200	565,392	
<b>Total revenues</b>		<b>29,385,591</b>	<b>104,080,642</b>	<b>\$ 120,686,086</b>
<b>Cost of revenues:</b>				
Advertising service cost		12,801,957	40,602,022	61,104,381
Advertising equipment cost		1,583,325	475,432	
<b>Total cost of revenues</b>		<b>14,385,282</b>	<b>41,077,454</b>	<b>61,104,381</b>
<b>Gross profit</b>		<b>15,000,309</b>	<b>63,003,188</b>	<b>59,581,705</b>
<b>Operating expenses:</b>				
Selling and marketing		2,149,067	14,711,536	24,620,897
General and administrative		2,949,509	5,414,571	7,425,222
Total operating expenses		5,098,576	20,126,107	32,046,119
Government grant				538,085
Loss from equity method investees		(1,262,273)	(484,969)	(998,606)
<b>Operating profit</b>		<b>8,639,460</b>	<b>42,392,112</b>	<b>27,075,065</b>
Interest income		505,888	3,480,212	1,860,017
Interest expense				(109,590)
Government grant			672,515	
Other expenses		(95,719)	(38,491)	(1,278)
Net income before income taxes		9,049,629	46,506,348	28,824,214
Income tax benefits (expenses)	15	332,386	212,325	(2,348,254)
<b>Net income</b>		<b>9,382,015</b>	<b>46,718,673</b>	<b>26,475,960</b>
Net loss attributable to noncontrolling interest		11,343	91,277	127,043
Net income attributable to VisionChina Media Inc. shareholders		9,393,358	46,809,950	26,603,003
Deemed dividend on convertible redeemable preferred shares		6,625,262		
<b>Net income attributable to VisionChina Media Inc. common shareholders</b>		<b>\$ 2,768,096</b>	<b>\$ 46,809,950</b>	<b>\$ 26,603,003</b>



Net income per share:			
Basic	\$ 0.11	\$ 0.67	\$ 0.37
Diluted	\$ 0.11	\$ 0.65	\$ 0.37
Weighted average shares used in computation of net income per share:			
Basic	24,709,522	70,064,663	71,686,900
Diluted	25,771,702	72,404,916	72,676,438
Share-based compensation expenses during the related periods included in:			
Cost of revenues	\$ 34,431	\$ 39,847	\$ 63,477
Selling and marketing expenses	135,722	1,163,623	3,698,329
General and administrative expenses	51,209	263,587	570,305

The accompanying notes are an integral part of these consolidated financial statements.

F-5

---

**Table of Contents**

VISIONCHINA MEDIA INC.  
CONSOLIDATED STATEMENTS OF CHANGES OF  
EQUITY AND COMPREHENSIVE INCOME  
(Amounts in U.S. Dollars ( \$ ), except number of shares)

	Common shares		Additional paid-in capital		Accumulated other comprehensive income (deficits) profit		Noncontrolling interest	Total	Comprehensive income
	Number	Amount							
<b>Balance at January 1, 2007</b>	22,000,000	\$ 2,200	\$ 6,136,689	\$ (6,068,750)	\$ 511,527		\$ 581,666		
Issuance of common shares pursuant to initial public offering	13,500,000	1,350	100,438,650				100,440,000		
Direct offering expenses			(3,725,432)				(3,725,432)		
Conversion of redeemable preferred shares to common shares	32,139,088	3,214	60,106,814				60,110,028		
Exercise of share options	747,750	75	642,360				642,435		
Addition on noncontrolling interest during establishment of subsidiaries						664,021	664,021		
Share-based compensation			221,362				221,362		
Cumulative translation adjustment					2,990,664		2,990,664	\$ 2,990,664	
Net income (loss)				9,393,358		(11,343)	9,382,015	9,382,015	
									\$ 12,372,679
Deemed dividend on convertible redeemable preferred				(6,625,262)			(6,625,262)		

shares

**Balance at  
December 31,  
2007**

	68,386,838	\$ 6,839	\$ 163,820,443	\$ (3,300,654)	\$ 3,502,191	652,678	\$ 164,681,497	
Issuance of common shares pursuant to follow-on offering	1,150,000	115	17,569,585				17,569,700	
Direct offering expenses			(1,613,738)				(1,613,738)	
Shares repurchase	(281,400)	(28)	(1,454,628)				(1,454,656)	
Exercise of share options	2,525,893	252	10,906,004				10,906,256	
Restricted shares	38,111	4	(4)					
Share-based compensation			1,467,057				1,467,057	
Cumulative translation adjustment					7,359,826		7,359,826	\$ 7,359,826
Net income (loss)				46,809,950		(91,277)	46,718,673	46,718,673
								\$ 54,078,499

**Balance at  
December 31,  
2008**

	71,819,442	\$ 7,182	\$ 190,694,719	\$ 43,509,296	\$ 10,862,017	561,401	\$ 245,634,615	
Shares repurchase	(658,980)	(66)	(3,582,449)				(3,582,515)	
Exercise of share options	423,139	42	918,240				918,282	
Restricted shares	557,083	56	(56)					
Share-based compensation			4,332,111				4,332,111	
Cumulative translation adjustment					(362,739)		(362,739)	\$ (362,739)
Net income (loss)				26,603,003		(127,043)	26,475,960	26,475,960
								\$ 26,113,221

**Balance at  
December 31,  
2009**

	72,140,684	\$ 7,214	\$ 192,362,565	\$ 70,112,299	\$ 10,499,278	\$ 434,358	\$ 273,415,714	
--	------------	----------	----------------	---------------	---------------	------------	----------------	--

The accompanying notes are an integral part of these consolidated financial statements.

F-6

---

**Table of Contents**

VISIONCHINA MEDIA INC.  
 CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (Amounts in U.S. Dollars ( \$ ), except number of shares)

	For the year ended December 31,		
	2007	2008	2009
<b>Cash flows from operating activities:</b>			
Net income	\$ 9,382,015	\$ 46,718,673	\$ 26,475,960
Adjustments to reconcile net income to net cash (used in) provided by operating activities:			
Allowance for doubtful accounts		675,108	627,169
Depreciation and amortization	306,491	3,285,032	5,150,952
Write-off of fixed assets			30,005
Loss from equity method investees	1,262,273	484,969	998,606
Share-based compensation	221,362	1,467,057	4,332,111
Deferred tax	(332,386)	(251,433)	(183,138)
Changes in operating assets and liabilities:			
Accounts receivable	(11,918,577)	(24,799,643)	620,661
Amounts due from related parties	(1,904,292)	(138,304)	891,092
Prepaid expenses and other current assets	(6,719,468)	(4,268,436)	(3,971,230)
Accounts payable	531,573	(3,292,601)	1,073,962
Amounts due to related parties	141,712	350,158	(573,255)
Income tax payable		39,209	2,371,947
Accrued expenses and other current liabilities	3,028,757	4,060,020	1,552,425
<b>Net cash (used in) provided by operating activities</b>	<b>(6,000,540)</b>	<b>24,329,809</b>	<b>39,397,267</b>
<b>Cash flows from investing activities:</b>			
Restricted cash			(64,368,455)
Settlements of consideration payable			(64,249,402)
Deposits for acquisitions of businesses		(16,689,988)	(40,000,000)
Acquisitions of and prepayment for fixed assets	(4,338,779)	(4,961,083)	(1,408,117)
Investment in other investments			(389,048)
Acquisitions of intangible assets			(234,599)
Investment in equity method investment	(3,854,500)	(111,396)	
<b>Net cash used in investing activities</b>	<b>(8,193,279)</b>	<b>(21,762,467)</b>	<b>(170,649,621)</b>
<b>Cash flows from financing activities:</b>			
Proceeds from bank loans			41,531,294
Share repurchases			(5,037,171)
Proceeds from exercise of share options	642,435	10,906,256	918,282
Payments of direct offering expenses	(1,209,682)	(3,860,716)	(278,902)
Payments of expenses for issuance of Series B convertible redeemable preferred shares	(1,735,561)		
Proceeds from issuance of common shares	100,440,000	17,569,700	
	40,000,000		

Proceeds from issuance of Series B convertible redeemable preferred shares			
Contributions from noncontrolling interest of a subsidiary	685,439		
<b>Net cash provided by financing activities</b>	<b>138,822,631</b>	<b>24,615,240</b>	<b>37,133,503</b>
<b>Effect of changes in exchange rate</b>	<b>1,295,154</b>	<b>4,926,045</b>	<b>(295,348)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>125,923,966</b>	<b>32,108,627</b>	<b>(94,414,199)</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>5,215,693</b>	<b>131,139,659</b>	<b>163,248,286</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>\$ 131,139,659</b>	<b>\$ 163,248,286</b>	<b>\$ 68,834,087</b>
Supplemental disclosure of cash flow information:			
Income taxes paid	\$	\$	\$ 159,445
Interest paid			
Non-cash investing activity:			
Capitalization of an amount due from an existing equity method investee	\$	\$ 897,032	\$
Non-cash financing activity:			
Shares repurchase not yet settled	\$	\$ 1,454,656	\$

The accompanying notes are an integral part of these consolidated financial statements.

F-7

**Table of Contents**

VISIONCHINA MEDIA INC.  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
(Amounts in U.S. Dollars ( \$ ), except number of shares)

**1. ORGANIZATION AND PRINCIPAL ACTIVITIES**

VisionChina Media Inc. (the Company) was incorporated under the laws of the Cayman Islands on January 27, 2006. The Company and its subsidiaries and variable interest entities (the Group) sell advertising time on its out-of-home digital television networks in the People's Republic of China (the PRC). The Group's principal geographic market is in the PRC.

The Company holds its interest in the operating subsidiaries and investees through a holding company, China Digital Technology Consulting Co., Ltd. (CDTC), which is a wholly owned company it established in the PRC on March 9, 2006. The Company does not conduct any substantive operations of its own, but conducts its primary business operations through CDTC's variable interest entity (VIE), VisionChina Media Group Limited (VisionChina Media Group) and VisionChina Media Group's subsidiaries and investees. VisionChina Media Group was incorporated under the laws of the PRC on April 8, 2005.

Chinese laws and regulations prohibit or restrict foreign ownership of media content and advertising business. To comply with these foreign ownership restrictions, the Group invests in ventures with local television stations and provides advertising services on its out-of-home digital television networks in the PRC through VisionChina Media Group, a PRC legal entity, which was established by co-founders of the Company. The paid-in capital of VisionChina Media Group was funded by the Company or CDTC through a loan extended to the co-founders. CDTC has entered into certain exclusive agreements with VisionChina Media Group, which obligate the Company to absorb a majority of the risk of loss from VisionChina Media Group's activities and entitle it to receive a majority of its residual returns. In addition, the Company through CDTC has entered into certain agreements with the two individuals including a loan agreement for the paid-in capital of VisionChina Media Group described above, an option agreement to acquire the shareholding in VisionChina Media Group when permitted by the PRC laws, and a share pledge agreement for the shares in VisionChina Media Group held by the co-founders. Based on these contractual arrangements, the Company believes that VisionChina Media Group should be considered as a VIE under Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 810, *Consolidation*, because the equity investors in VisionChina Media Group do not have the characteristics of a controlling financial interest and the Company through CDTC is the primary beneficiary of VisionChina Media Group. The Company and CDTC hold all the variable interests of VisionChina Media Group, and the Company and CDTC have been determined to be the most closely associated with VisionChina Media Group. Therefore, the Company is the primary beneficiary of VisionChina Media Group. Accordingly, the Company consolidates VisionChina Media Group.

These contractual arrangements enable the Company to exercise effective control over VisionChina Media Group and its subsidiaries and receive substantially all of the economic benefits of VisionChina Media Group and its subsidiaries for a remaining period of 23 years.

The Group's consolidated assets do not include any collateral for VisionChina Media Group's obligations. The carrying amount of the total assets of VisionChina Media Group as of December 31, 2008 and 2009 were \$223,326,903 and \$268,576,744, respectively, and the total liabilities of VisionChina Media Group as of December 31, 2008 and 2009 were \$153,169,722 and \$165,550,085, respectively. There was no pledge or collateral of its assets. Furthermore, creditors of VisionChina Media Group have no recourse to the general credit of CDTC, which is the primary beneficiary of VisionChina Media Group.

**Table of Contents**

VISIONCHINA MEDIA INC.  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
 (Amounts in U.S. Dollars ( \$ ), except number of shares)

**1. ORGANIZATION AND PRINCIPAL ACTIVITIES** continued

As of December 31, 2009, subsidiaries and variable interest entities of the Company and VisionChina Media Group's subsidiaries include the following entities:

Companies	Date of acquisition	Date of establishment/ incorporation	Place of establishment/ incorporation	Percentage of ownership
Subsidiaries of the Company				
CDTC	N/A	March 9, 2006	PRC	100%
Aim Sky International Limited ( Aim )	April 1, 2008	January 1, 2008	British Virgin Islands ( BVI )	100%
Win Prosper Development Limited	N/A	April 23, 2008	Hong Kong ( HK )	100%
Century Port Limited ( Century )	May 1, 2008	March 20, 2008	BVI	100%
Golden Carriage International Limited ( Golden )	May 1, 2008	December 13, 2007	BVI	100%
Goldwhite Limited ( Goldwhite )	May 1, 2008	March 21, 2008	BVI	100%
Peak Win Limited ( Peak )	May 1, 2008	March 19, 2008	BVI	100%
Ahead Smart Holdings Limited ( Ahead )	August 4, 2008	June 18, 2008	BVI	100%
Shenzhen Huachangshi Digital Technology Co., Ltd. ( Huachangshi )	N/A	November 27, 2008	PRC	100%
Vision Best Limited ( Vision Best )	N/A	September 23, 2009	BVI	100%
Digital Value Holdings Limited ( Digital Value )	N/A	October 9, 2009	BVI	100%
VIE and subsidiary of CDTC				
VisionChina Media Group	(Note)	April 8, 2005	PRC	(Note)
Whole Genius Limited	N/A	May 16, 2008	HK	100%
Subsidiaries of VisionChina Media Group				
Shenzhen HDTV Industry Investment Co., Ltd. ( Shenzhen HDTV )	February 17, 2006	June 16, 2004	PRC	100%
Beijing Beiguang Media Mobile Television Advertising Co., Ltd. ( Beiguang Media )	N/A	December 18, 2006	PRC	100%
Beijing Huaguangshi Co., Ltd.	N/A	April 22, 2008	PRC	100%
Beijing Hua Jingshi Media Advertising Co., Ltd. ( Beijing Hua Jingshi )	N/A	July 26, 2007	PRC	100%
Beijing Hua Meishi Advertising Co., Ltd. ( Beijing Hua Meishi )	N/A	May 25, 2007	PRC	100%
Luzhou Huashi Digital Technology Co., Ltd. ( Luzhou Huashi )	N/A	November 21, 2008	PRC	100%
Nanjing Hua Meishi Advertising Co., Ltd. ( Nanjing Hua Meishi )	N/A	July 16, 2007	PRC	100%
	N/A	June 29, 2007	PRC	100%



Shenzhen Hua Meishi Advertising Co., Ltd. ( Shenzhen Hua Meishi )				
Shenzhen Huashixin Culture Media Co., Ltd. ( Shenzhen Huashixin )	N/A	September 3, 2007	PRC	100%
Nanjing Media Culture Co., Ltd. ( Nanjing Media Culture )	N/A	March 28, 2007	PRC	100%
Guangzhou Jiaojian Multimedia Information Technology Co., Ltd. ( Guangzhou Jiaojian )	N/A	October 8, 2007	PRC	50%
Shanghai Junshi Advertising Co., Ltd. ( Shanghai Junshi )	N/A	June 11, 2008	PRC	100%
Xian Qujiang Huachangshi Digital Technology Co., Ltd. ( Xian Huachangshi )	N/A	November 12, 2009	PRC	100%

Note: Through a series of recapitalization, VisionChina Media Group became a VIE of CDTC

F-9

---

**Table of Contents**

VISIONCHINA MEDIA INC.  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
 (Amounts in U.S. Dollars ( \$ ), except number of shares)

**1. ORGANIZATION AND PRINCIPAL ACTIVITIES** continued

As of December 31, 2009, the VisionChina Media Group's equity method investees include the following entities:

Investee companies	Date of acquisition	Date of establishment	Place of establishment	Percentage of ownership
Chengdu Mobile Digital Television Company Limited ( Chengdu Mobile )	N/A	April 29, 2005	PRC	49%
Haerbin China Mobile Television Company limited ( Haerbin Mobile )	N/A	November 10, 2005	PRC	49%
Jilin Mobile Television Company Limited ( Jilin Mobile )	N/A	November 8, 2005	PRC	49%
Dalian Mobile Digital Television Company Limited ( Dalian Mobile )	N/A	February 20, 2006	PRC	49%
Henan China Digital Mobile Television Company Limited ( Henan Mobile )	N/A	July 4, 2006	PRC	49%
Hubei China Digital Television Company Limited ( Hubei Mobile )	N/A	July 26, 2006	PRC	49%
Suzhou China Digital Mobile Television Company Limited ( Suzhou Mobile )	N/A	February 17, 2007	PRC	49%
Changzhou China Digital Mobile Television Company Limited ( Changzhou Mobile )	N/A	March 19, 2007	PRC	49%
Ningbo China Digital Mobile Television Company Limited ( Ningbo Mobile )	N/A	April 5, 2007	PRC	49%

The VisionChina Media Group's equity method investees have been separately formed with 9 separate parties for the purpose of engaging in provision of digital mobile television advertising services in the PRC. VisionChina Media Group contributed cash and another investor contributed advertising broadcasting rights to the equity method investees for 49% and 51% equity interests, respectively.

F-10

---

**Table of Contents**

VISIONCHINA MEDIA INC.  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
 (Amounts in U.S. Dollars ( \$ ), except number of shares)

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****(a) Basis of presentation**

The consolidated financial statements of the Company have been prepared in accordance with the accounting principles generally accepted in the United States of America ( US GAAP ).

**(b) Principles of Consolidation**

The consolidated financial statements include the financial statements of the Company, its subsidiaries and VIE for which the Company is the primary beneficiary. All inter-company transactions and balances have been eliminated on consolidation.

**(c) Noncontrolling interest**

Effective January 1, 2009, the Group adopted an authoritative pronouncement issued by Financial Accounting Standards Board ( FASB ) regarding noncontrolling interest in consolidated financial statements. The pronouncement requires noncontrolling interests to be separately presented as a component of equity in the consolidated financial statements. The presentation regarding noncontrolling interest was retroactively applied for all periods presented.

**(d) Significant risks and uncertainties**

The Group participates in a young and dynamic industry and believes that changes in any of the following areas could have a material adverse effect on the Group s future financial position, results of operations or cash flows: advances and trends in new technologies or industry standards; competition; changes in key suppliers; changes in certain strategic relationships; regulatory or other PRC related factors such as PRC tax rules and etc.; risks associated with the Group s ability to attract and retain employees necessary to support its growth; and general risks associated with the advertising industry.

**(e) Cash and cash equivalents**

Cash and cash equivalents consist of cash on hand and highly liquid investments which are unrestricted as to withdrawal or use, and which have maturities of three months or less when purchased.

**(f) Restricted cash**

Restricted cash represents the amount of cash pledged as securities for outstanding borrowings to financial institutions.

**(g) Intangible Assets, net**

Intangible assets, which consist of customer base, non-compete agreements and patents are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method over their respective expected useful lives as follows:

	Estimated use life
Customer base	5 years
Non-compete agreements	10 years
Patents	10 years

**Table of Contents**

VISIONCHINA MEDIA INC.  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
 (Amounts in U.S. Dollars ( \$ ), except number of shares)

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** continued**(h) Fixed assets, net**

Fixed assets are carried at cost less accumulated depreciation and amortization. Assembly in progress is not depreciated until it is ready for its intended use.

Depreciation and amortization is computed on a straight-line basis over the following estimated useful lives, after taking into account the residual values:

Media display equipment	5 years
Computers and office equipment	5 years
Motor vehicles	5 years
Leasehold improvements	lesser of lease terms or the estimated useful lives of the assets

**(i) Investments under equity method**

The investments for which the Group has the ability to exercise significant influence are accounted for using the equity method. Under the equity method, original investments are recorded at cost and adjusted by the Group's share of undistributed earnings or losses of these entities, by the amortization of intangible assets recognized upon purchase price allocation and by dividend distributions or subsequent investments. All unrecognized inter-company profits and losses have been eliminated under the equity method.

The Group generates a portion of its revenues from sales of advertising time on mobile television networks which are owned by its equity method investees. Because the operations of the Group's investees under equity method form an integral part to the Group's operating activities, the Group's share of undistributed earnings or losses of these entities is classified as part of the Group's operating income.

When the estimated amount to be realized from the investments falls below its carrying value, an impairment charge is recognized in the consolidated statements of operations when the decline in value is considered other than temporary.

**(j) Other investments**

The Group's investments in non-marketable equity securities for which the Group does not have the ability to exercise significant influence or control are accounted for using the cost method. Dividends and other distributions of earnings from investees, if any, are included in income when declared. The Group periodically evaluates the carrying value of investments accounted for under the cost method of accounting and any impairment is included in the consolidated statements of operations.

**(k) Impairment of long-lived assets**

The Group reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may no longer be recoverable. When these events occur, the Group measures impairment by comparing the carrying value of the long-lived assets to the estimated undiscounted future cash flows expected to result from the use of the assets and their eventual disposition. If the sum of the expected undiscounted cash flow were to be less than the carrying amount of the assets, the Group would recognize an impairment loss based on the fair value of the assets.

**Table of Contents**

VISIONCHINA MEDIA INC.  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
 (Amounts in U.S. Dollars ( \$ ), except number of shares)

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** continued*(l) Goodwill*

The excess of the purchase price over the fair value of net assets acquired is recorded on the consolidated balance sheet as goodwill. Goodwill is not amortized, but is tested for impairment at the reporting unit level at least on an annual basis at the balance sheet date or more frequently if certain indicators arise.

Goodwill impairment is tested using a two-step approach. The first step compares the fair value of each reporting unit to its carrying amount, including goodwill. If the fair value of the reporting unit exceeds its carrying amount, goodwill is not considered to be impaired and the second step is not required. If the carrying amount of a reporting unit exceeds its fair value, the second step compares the implied fair value of goodwill to the carrying value of the reporting unit's goodwill. The implied fair value of goodwill is determined in a manner similar to accounting for a business combination with allocation of the assessed fair value determined in the first step to the assets and liabilities of the reporting unit. The excess of the fair value of the reporting unit over the amounts assigned to the assets and liabilities is the implied fair value of goodwill. This allocation process is only performed for the purpose of evaluating goodwill impairment and does not result in an entry to implied fair value of goodwill. Management performed an annual goodwill impairment test as of December 31, 2009, and no impairment loss was required.

The changes in the carrying amount of goodwill for the years ended December 31, 2008 and 2009 are as follows:

	Total
Balance as of January 1, 2008	\$
Goodwill acquired during the year	21,074,229
Balance as of December 31, 2008 and January 1, 2009	\$ 21,074,229
Addition	87,988,750
Exchange realignment	(45,310)
Balance as of December 31, 2009	\$ 109,017,669

*(m) Revenue recognition**(1) Time-based advertising services*

For time-based advertising services, the Group recognizes revenues as the advertisements are aired over the contractual term based on the schedules agreed with the customer. Payments received in advance of services provided are recorded as customer deposits.

Deferred revenue is recorded when services are provided before the applicable revenue recognition criteria set forth in Securities and Exchange Commission ( SEC ) Staff Accounting Bulletin 104 are fulfilled.

*(2) Barter transactions*

Periodically, the Group engages in barter transactions which are generally recorded at fair value. The Group recognizes revenue and assets/expenses of the exchanges based on the fair value of the advertising provided, which can be determined based on the Group's historical practice of receiving cash. The amount of revenues recognized for barter transactions was insignificant for each of the periods presented.

**Table of Contents**

VISIONCHINA MEDIA INC.  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
(Amounts in U.S. Dollars ( \$ ), except number of shares)

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** continued

***(m) Revenue recognition*** continued

**(3) Equipment**

Revenues from sales of advertising equipment, which are from related parties, are recognized upon delivery, at which time all four of the following criteria are met: (i) pervasive evidence that an arrangement exists; (ii) delivery of the products and/or services has occurred and risks and rewards of ownership have passed to the customer; (iii) the selling price is both fixed and determinable, and (iv) collection of the resulting receivable is reasonably assured.

Advertising equipment revenues are recorded net of value-added tax incurred, which amounted to \$322,354, \$96,117 and Nil for the years ended December 31, 2007, 2008 and 2009, respectively.

***(n) Cost of revenues***

Cost of advertising services consists primarily of media costs payable under advertising agreements, depreciation, business taxes and surcharges and other operating costs. Media costs are expensed as incurred.

The amount of business taxes and surcharges included in cost of advertising services totalled \$1,171,028, \$6,263,811 and \$6,750,536 for the years ended December 31, 2007, 2008 and 2009, respectively.

Cost of equipment consists primarily of purchase cost of digital television displays and other related equipment.

***(o) Operating leases***

Leases in which substantially all the rewards and risks of ownership of assets remain with the leasing group are accounted for as operating leases. Payments made under operating leases are charged to the consolidated statement of operations on a straight-line basis over the lease periods.

***(p) Foreign currency translation***

The functional and reporting currency of the Company is the United States dollars ( US dollars ). Monetary assets and liabilities denominated in currencies other than the US dollars are translated into the US dollars at the rates of exchange at the balance sheet date. Transactions in currencies other than the US dollars during the year are converted into the US dollars at the applicable rates of exchange prevailing at the date of the transactions. Transaction gains and losses are recognized in the consolidated statements of operations.

The financial records of the Company's subsidiaries and VIE are maintained in their respective local currency, the Renminbi ( RMB ) or Hong Kong Dollar ( HKD ), which are also their functional currency. Assets and liabilities are translated at the exchange rates at the balance sheet date; equity accounts are translated at historical exchange rates; revenues, expenses and gains and losses are translated using the average rates for the period. Translation adjustments are reported as cumulative translation adjustments and are shown as a separate component of other comprehensive income in the consolidated statements of shareholders' equity.

**Table of Contents**

VISIONCHINA MEDIA INC.  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
 (Amounts in U.S. Dollars ( \$ ), except number of shares)

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** continued**(q) Net income per share**

Basic net income per share is computed by dividing net income attributable to VisionChina Media Inc. shareholders by the weighted average number of common shares outstanding during the year. Diluted net income per common share reflects the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted into common shares. The Company's dilutive securities consist of outstanding share options and restricted shares. Certain common share equivalents (e.g. share options and restricted shares) are excluded from calculation of diluted income per share as their effect is anti-dilutive. The Company had outstanding share options amounted to 4,838,359, 2,768,550 and 2,399,658 as of December 31, 2007, 2008 and 2009, respectively. As of December 31, 2008 and 2009, the Company had outstanding restricted shares of 204,889 and 90,723 respectively.

The following table sets forth the computation of basic and diluted net income attributable to VisionChina Media Inc. shareholders per share.

	Year ended December 31,		
	2007	2008	2009
Numerator:			
Net income attributable to VisionChina Media Inc. shareholders	\$ 2,768,096	\$ 46,809,950	\$ 26,603,003
Denominator:			
Weighted average shares outstanding-basic	24,709,522	70,064,663	71,686,900
Effect of dilutive securities:			
Share options and restricted shares	1,062,180	2,340,253	989,538
Denominator used for diluted earnings per share	25,771,702	72,404,916	72,676,438
Basic earnings per share	\$ 0.11	\$ 0.67	\$ 0.37
Diluted earnings per share	0.11	0.65	0.37

**(r) Income taxes**

Deferred tax assets and liabilities are determined based on the difference between the financial reporting and tax bases of assets and liabilities, and operating loss and tax credit carryforwards using enacted tax rates that will be in effect for the period in which the differences are expected to reverse. The Group records a valuation allowance against the amount of deferred tax assets that it determines is not more likely than not of being realized. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date.

The Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. The Company records interest related to unrecognized tax benefits and penalties, if any, in income tax expense.

**Table of Contents**

VISIONCHINA MEDIA INC.  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
(Amounts in U.S. Dollars ( \$ ), except number of shares)

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** continued

*(s) Share-based compensation*

Share-based payments to employees are measured based on the fair values of share options on the grant dates and recognized as compensation expense over the requisite service periods with a corresponding addition to paid-in capital.

Share awards issued to non-employees are measured at fair value at the earlier of the commitment date or the date the services is completed and recognized over the period the service is provided or as goods are received.

The Group uses the Black-Scholes option pricing model to measure the value of options granted to non-employees and employees at each measurement date.

*(t) Comprehensive income*

Comprehensive income is defined as the change in equity of the Group during a period from transactions and other events and circumstances excluding transactions resulting from investments by owners and distributions to owners. Comprehensive income is reported in the consolidated statements of changes of equity. Comprehensive income of the Group represents the cumulative foreign currency translation adjustments and net income for the year.

*(u) Use of estimates*

The preparation of consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant accounting estimates reflected in the Group's consolidated financial statements include allowance for doubtful debts, valuation of goodwill and intangible assets, valuation of investments under equity method, valuation of other investments, valuation of deferred tax assets, useful lives of fixed assets and fair value of stock options.

*(v) Government grants*

Government grants include cash subsidies received from the PRC government by the operating subsidiaries of the Company. Government grants are recognized when received and all the conditions specified in the grant have been met, and classified as operating or non-operating profit according to the nature of the government grants.

In 2008, the Company received a subsidy of \$672,515 from the local government as a one-off award for the consummation of the Company's initial public offering. Such subsidy has been classified as non-operating income. In 2009, the Company received a subsidy of \$538,085 from the local government for the expansion of local businesses. Such subsidy has been classified as operating profit.



**Table of Contents**

VISIONCHINA MEDIA INC.  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
(Amounts in U.S. Dollars ( \$ ), except number of shares)

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** continued

*(w) Concentration of Risks*

***Concentration of Credit Risk***

Financial instruments that potentially subject the Company to significant concentration of credit risk primarily consist of cash and cash equivalents, restricted cash and accounts receivable. As of December 31, 2008 and 2009, substantially all of the Group's cash and cash equivalents and restricted cash were managed by financial institutions with high credit ratings and quality. Accounts receivable are typically unsecured and are derived from revenues earned from customers in the PRC. The risk with respect to accounts receivables is mitigated by credit evaluations performed on the customers and ongoing monitoring of outstanding balances. The Group maintains and records an allowance for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. The allowance for doubtful accounts is based on a review of aging data and specifically identified accounts. Accounts receivable are charged against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The accounts receivable from customers with balances over 10% of the accounts receivable, net represent 29% and 24% of the balance in the account as of December 31, 2008 and 2009, respectively.

***Current vulnerability due to certain other concentrations***

The Group's operations may be adversely affected by significant political, economic and social uncertainties in the PRC. Although the PRC government has been pursuing economic reform policies for more than 20 years, no assurance can be given that the PRC government will continue to pursue such policies or that such policies may not be significantly altered, especially in the event of a change in leadership, social or political disruption or unforeseen circumstances affecting the PRC's political, economic and social conditions. There is also no guarantee that the PRC government's pursuit of economic reforms will be consistent or effective.

Substantially all of the Group's businesses are transacted in RMB, which is not freely convertible into foreign currencies. On January 1, 1994, the PRC government abolished the dual rate system and introduced a single rate of exchange as quoted daily by the People's Bank of China. However, the unification of the exchange rates does not imply the convertibility of RMB into US dollar or other foreign currencies. All foreign exchange transactions continue to take place either through the People's Bank of China or other banks authorized to buy and sell foreign currencies at the exchange rates quoted by the People's Bank of China. Approval of foreign currency payments by the People's Bank of China or other institutions requires submitting a payment application form together with supplier invoices, shipping documents and signed contracts.

*(x) Fair value of financial instruments*

The carrying amounts of cash and cash equivalents, restricted cash, accounts receivable, amounts due from related parties, other current assets, short-term bank loans, accounts payable, amounts due to related parties, consideration payable and other current liabilities approximate their fair values due to the short term nature of these instruments.

**Table of Contents**

VISIONCHINA MEDIA INC.  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
 (Amounts in U.S. Dollars ( \$ ), except number of shares)

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** continued**(y) Recently issued accounting standards**

In December 2009, the FASB issued Accounting Standards Update ( ASU ) 2009-17, *Consolidations (Topic 810) Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities* ( ASU 2009-17 ) which amends the FASB ASC for the issuance of FASB Statement No. 167, *Amendments to FASB Interpretation No. 46(R)*, issued by the FASB in June 2009. The amendments in this ASU replace the quantitative-based risks and rewards calculation for determining which reporting entity, if any, has a controlling financial interest in a variable interest entity with an approach primarily focused on identifying which reporting entity has the power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance and (1) the obligation to absorb the losses of the entity or (2) the right to receive the benefits from the entity. ASU 2009-17 also requires additional disclosure about a reporting entity's involvement in a VIE, as well as any significant changes in risk exposure due to that involvement. ASU 2009-17 is effective for annual and interim periods beginning after November 15, 2009. Early application is not permitted. The adoption of ASU 2009-17 is not expected to have a material impact on the Group's financial position, results of operations and cash flows.

In June 2009, the FASB issued Statement of Financial Accounting Standard ( SFAS ) 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles – a replacement of FASB Statement No. 162* ( SFAS 162 ) (collectively SFAS 168 ) SFAS 168 states that the FASB Accounting Standards Codification will become the source of authoritative US GAAP recognized by the FASB. Once effective, the Codification's content will carry the same level of authority as SFAS 162, which will then be superseded. The US GAAP hierarchy will be modified to include only two levels of US GAAP: authoritative and nonauthoritative. The adoption of this pronouncement did not have a material impact on the Group's financial position, results of operations and cash flows.

Effective January 1, 2009, the Group adopted certain provisions of FASB ASC 805 *Business Combination* (formerly SFAS No. 141R), intended to improve reporting by creating greater consistency in the accounting and financial reporting of business combinations. The standard requires the acquiring entity in a business combination to recognize all, as of that date, of the assets acquired and liabilities assumed in the acquiree at the acquisition-date, measured at their fair values. It also requires the acquirer to disclose to investors and other users all of the information they need to evaluate and understand the nature and financial effect of the business combination. The adoption of SFAS 141R did not have a significant effect on the Group's financial position, results of operations or cash flows.

Effective January 1, 2009, the Group adopted certain provisions of FASB ASC 810 *Consolidation* (formerly SFAS No. 160), which establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. These provisions clarify that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity and should be reported as equity on the financial statements. These provisions require consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the noncontrolling interest. Furthermore, disclosure of the amounts of consolidated net income attributable to the parent and to the noncontrolling interest is required on the face of the financial statements. Accordingly, in 2009, minority interests has been renamed noncontrolling interest, consolidated net income is reported at amounts that include the amounts attributable to both noncontrolling interests and VisionChina Media Inc. shareholders for all periods presented. In addition, noncontrolling interests has been reported as a component of equity in the consolidated balance sheets and consolidated statements of changes of equity and comprehensive income for all periods presented. The Company has retrospectively applied the presentation to its prior year balances in the consolidated financial statements.

**Table of Contents**

VISIONCHINA MEDIA INC.  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
 (Amounts in U.S. Dollars ( \$ ), except number of shares)

**3. ACQUISITIONS*****Acquisitions in 2008***

Between April 1, 2008 and August 4, 2008, the Group acquired a 100% equity interest in the following entities: Aim, Century, Golden, Goldwhite, Peak and Ahead. These six entities are investing holding companies which own six different advertising agency businesses and were acquired by the Group separately from six unrelated entities. The purpose of the acquisitions was to leverage the blue-chip customer base of the advertising planning companies and integrate their strong sales teams into the Group's sales network to increase value for shareholders. The purchase price was comprised entirely of contingent consideration based on certain multiples on the earnings and the percentage of revenues collected. Pursuant to the terms of the acquisition agreements, the Group paid initial deposits of \$16,689,988 (see note 6) in the year ended December 31, 2008. These initial deposits will be used to offset a portion of the additional consideration payable at the end of the earn-out period (see below for details on the additional consideration payable). Additional consideration is to be calculated based on the earnings of each of the businesses acquired during the period from date of acquisitions to December 31, 2008, the year ended December 31, 2009 and the year ending December 31, 2010 (the Earn-out Consideration).

The following table summarizes the fair values of the assets and liabilities assumed by the Group on the date of acquisition of the businesses:

	<b>Peak</b>	<b>Aim</b>	<b>Golden</b>	<b>Goldwhite</b>	<b>Ahead</b>	<b>Century</b>	<b>Total</b>
Intangible assets:							
Customer base	\$ 4,152,437	\$ 631,587	\$ 1,244,119	\$ 2,102,309	\$ 3,067,790	\$ 811,872	\$ 12,010,114
Non-compete agreement	1,053,864	168,560	301,796	550,971	1,413,412	206,523	3,695,126
Deferred tax liability	(1,062,504)	(164,169)	(316,005)	(542,397)	(974,852)	(208,759)	(3,268,686)
Total	4,143,797	635,978	1,229,910	2,110,883	3,506,350	809,636	12,436,554
Goodwill	9,933,337	2,850,255	2,807,483	2,698,069	1,427,027	1,358,058	21,074,229
Consideration payable at December 31, 2008	\$ 14,077,134	\$ 3,486,233	\$ 4,037,393	\$ 4,808,952	\$ 4,933,377	\$ 2,167,694	\$ 33,510,783

The amortization periods for customer base and non-compete agreement are 5 years and 10 years, respectively. The following table summarizes the maximum Earn-out Consideration for 2008 and 2009:

	<b>Peak</b>	<b>Aim</b>	<b>Golden</b>	<b>Goldwhite</b>	<b>Ahead</b>	<b>Century</b>	<b>Total</b>
Total Earn-out Consideration:							
2008	22,495,063	12,682,567	8,976,319	9,365,189	12,191,410	3,727,453	69,438,001
2009	25,823,672	11,835,676	7,732,219	11,122,901	13,623,225	5,096,020	75,233,713

F-19

**Table of Contents**

VISIONCHINA MEDIA INC.  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
 (Amounts in U.S. Dollars ( \$ ), except number of shares)

**3. ACQUISITIONS** continued

The following table summarizes the details of the Earn-out Consideration payables from that date of acquisition to December 31, 2009:

	<b>Peak</b>	<b>Aim</b>	<b>Golden</b>	<b>Goldwhite</b>	<b>Ahead</b>	<b>Century</b>	<b>Total</b>
Earn-out Consideration payable at December 31, 2008	\$ 14,077,134	\$ 3,486,233	\$ 4,037,393	\$ 4,808,952	\$ 4,933,377	\$ 2,167,694	\$ 33,510,783
Additional Earn-out Consideration for 2008	8,417,929	9,196,334	4,938,926	4,556,237	7,258,033	1,559,759	35,927,218
Earn-out Consideration for 2009	25,823,672	4,881,252	5,154,755	4,792,551	6,917,422	4,445,735	52,015,387
Less: Settlements in 2009	(20,280,617)	(12,268,699)	(8,495,113)	(8,065,394)	(11,840,634)	(3,298,945)	(64,249,402)
At December 31, 2009	\$ 28,038,118	\$ 5,295,120	\$ 5,635,961	\$ 6,092,346	\$ 7,268,198	\$ 4,874,243	\$ 57,203,986
Recorded in the balance sheet as:							
Current	23,578,136	4,708,215	4,829,839	4,225,197	6,465,574	4,066,940	47,873,901
Non-current	4,459,982	586,905	806,122	1,867,149	802,624	807,303	9,330,085

Earn-out Consideration is calculated based certain multiples on the earnings, as stipulated in the acquisition agreements, of each of the businesses acquired. Payment of the Earn-out Consideration is based on the percentage of revenues collected. Therefore receivables recorded at December 31, 2008 related to 2008 revenues that were subsequently collected in 2009 result in a liability for an additional portion of the 2008 Earn-out Consideration. For the 2009 Earn-out Consideration, because not all of the 2009 revenues were collected as of December 31, 2009, additional Earn-out Consideration payable will be recorded in 2010 as the receivables recorded at December 31, 2009 related to the 2009 revenues are collected in 2010.

The portion of the total Earn-out Consideration that will be offset against the deposit for acquisitions has been recorded as a long term liability because the right of offset will not exist until the Earn-out Consideration period is completed.

The accompanying consolidated financial statements include the accounts of the six acquired businesses as of December 31, 2008 and 2009 and the operating results since the dates of the respective acquisitions.

The following combined pro forma information of the six acquired businesses summarizes the effect of the acquisitions, as if the acquisitions had occurred as of January 1, 2007 and January 1, 2008. This pro forma financial

information is presented for information purposes only. It is based on historical information and does not purport to represent the actual results that may have occurred had the Company consummated the acquisitions on January 1, 2007 and January 1, 2008, nor is it necessarily indicative of future results of operations of the consolidated enterprise.

	<b>Pro forma</b>	
	<b>Year ended December 31, 2007 (unaudited)</b>	<b>Year ended December 31, 2008 (unaudited)</b>
Revenues	\$30,087,061	\$104,446,447
Net income	598,382	45,996,379
Income per share basic	\$ 0.02	\$ 0.66
Income per share diluted	\$ 0.02	\$ 0.64

F-20

---

**Table of Contents**

VISIONCHINA MEDIA INC.  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
 (Amounts in U.S. Dollars ( \$ ), except number of shares)

**4. ACCOUNTS RECEIVABLE**

	December 31,	
	2008	2009
Accounts receivables	\$ 38,908,725	\$ 38,227,266
Less: Allowance for doubtful accounts	(612,135)	(1,177,190)
	\$ 38,296,590	\$ 37,050,076

Movements in allowance for doubtful accounts

	2008	2009
Balance at beginning of the year	\$	\$ 612,135
Exchange realignment		(1,316)
Current year additions	612,135	627,169
Current year write-offs		(60,798)
	\$ 612,135	\$ 1,177,190

As at December 31, 2009, the Group had billed receivables of \$29,370,464 and unbilled receivables of \$8,856,802. Unbilled receivables represent amounts earned under advertising contracts in progress but not billable at December 31, 2009. These amounts become billable according to contract term. The Group anticipates that substantially all of such unbilled amounts will be billed and collected within twelve months of the balance sheet date.

**5. PREPAID EXPENSES AND OTHER CURRENT ASSETS**

Prepaid expenses and other current assets consist of the following:

	December 31,	
	2008	2009
Advances to suppliers	\$ 4,980,084	\$ 6,772,210
Staff advances	274,895	782,539
Deposits	617,553	390,096
Interest receivable	1,993,549	158,257
Other	1,565,198	1,945,905
	\$ 9,431,279	\$ 10,049,007

Advances to suppliers mainly represent prepayment for media costs. Deposits mainly represent deposits for media cost agreements.

**Table of Contents**

VISIONCHINA MEDIA INC.  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
 (Amounts in U.S. Dollars ( \$ ), except number of shares)

**6. LONG-TERM PREPAYMENTS AND DEPOSITS**

Long term prepayments and deposits consist of the following:

	December 31,	
	2008	2009
Prepaid service fees	\$ 731,772	\$ 705,798
Deposits for acquisitions of businesses	16,689,988	56,689,988
Prepayments for acquisition of fixed assets	1,354,984	1,311,766
Other deposits	3,111,324	6,534,018
	\$ 21,888,068	\$ 65,241,570

Other deposits mainly represent deposits for media cost agreements.

**7. INTANGIBLE ASSETS, NET**

As of December 31, 2008 and 2009, the Group had the following amounts related to the intangible assets:

	December 31,	
	2008	2009
<b>Cost</b>		
Customer base	\$ 12,010,114	\$ 11,984,292
Non-compete agreements	3,695,126	3,687,182
Patents		234,599
	\$ 15,705,240	\$ 15,906,073
<b>Accumulated amortization</b>		
Customer base	\$ 1,458,486	\$ 3,852,208
Non-compete agreements	212,411	580,675
Patents		17,218
	\$ 1,670,897	\$ 4,450,101
<b>Intangible assets, net</b>		
Customer base	\$ 10,551,628	\$ 8,132,084
Non-compete agreements	3,482,715	3,106,507
Patents		217,381
	\$ 14,034,343	\$ 11,455,972

Amortization expense of \$1,670,897 and \$2,765,578 for the years ended December 31, 2008 and 2009, respectively, was included in selling and marketing expenses in the consolidated statements of operations while Nil and \$17,218 for the years ended December 31, 2008 and 2009, respectively, was included in general and

administrative expenses in the consolidated statement of operations.

The Group will record amortization expenses of \$2,786,239 for each of the years ending December 31, 2010, 2011 and 2012; \$1,331,006 for the year ending December 31, 2013; \$390,336 for the year ending December 31, 2014.

F-22

---



**Table of Contents**

VISIONCHINA MEDIA INC.  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
 (Amounts in U.S. Dollars ( \$ ), except number of shares)

**8. FIXED ASSETS, NET**

Fixed assets consist of the following:

	December 31,	
	2008	2009
Media display equipment	\$ 10,021,162	\$ 10,577,304
Computers and office equipment	1,128,813	1,333,285
Motor vehicles	366,047	429,500
Leasehold improvements	712,026	1,105,249
 Sub-total	 \$ 12,228,048	 \$ 13,445,338
Less: accumulated depreciation and amortization	2,022,264	4,252,597
	 \$ 10,205,784	 \$ 9,192,741

Depreciation and amortization expense was \$306,491, \$1,614,135 and \$2,368,155 for the years ended December 31, 2007, 2008 and 2009, respectively.

Included in media display equipment are assembly in progress of \$1,988,250 and \$1,348,046 as of December 31, 2008 and 2009, respectively. These assets are expected to be placed in service in the following year.

**9. INVESTMENTS UNDER EQUITY METHOD**

In 2007, VisionChina Media Group made cash investments totalling \$965,581, \$772,465 and \$643,720 for its 49% equity interests in Suzhou Mobile, Changzhou Mobile and Ningbo Mobile, respectively. These equity method investees have been separately established with 3 separate parties for the purpose of engaging in provision of digital mobile television advertising services in the PRC.

VisionChina Media Group also made additional cash investments in 2007 of \$965,580 and \$507,154 to its existing equity method investees, Dalian Mobile and Hubei Mobile, respectively.

In 2008, VisionChina Media Group made additional cash investments of \$111,396 to its existing equity method investee, Haerbin Mobile and capitalized an amount due from its existing equity method investee, Henan Mobile, of \$897,032.

As of December 31, 2008 and 2009, VisionChina Media Group had, in total, nine equity method investees. The Group has accounted for these investments using the equity method of accounting.

**Table of Contents**

VISIONCHINA MEDIA INC.  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
 (Amounts in U.S. Dollars ( \$ ), except number of shares)

**9. INVESTMENTS UNDER EQUITY METHOD** continued

The combined results of operations and financial position of these investments are summarized below:

	Year ended December 31,		
	2007	2008	2009
Condensed statement of operations information:			
Revenue	\$ 1,783,008	\$ 5,019,647	\$ 6,607,047
Net losses	(2,124,146)	(482,795)	(1,708,199)
Group's equity in net loss of investees	\$ (1,040,832)	\$ (236,570)	\$ (837,018)

	December 31,	
	2008	2009
Condensed balance sheet information:		
Current assets	\$ 5,490,270	\$ 5,300,868
Non-current assets	9,785,995	8,167,873
Total assets	\$ 15,276,265	\$ 13,468,741
Current liabilities	\$ 4,989,366	\$ 4,913,433
Equity	10,286,899	8,555,308
Total liabilities and equity	\$ 15,276,265	\$ 13,468,741
Group's share of net assets	\$ 5,040,581	\$ 4,192,101

As of December 31, 2008 and 2009, the carrying value of the Group's investments under the equity method was \$7,686,065 and \$6,670,189, respectively. The difference between the carrying value of the Group's investments under the equity method and the Group's share in its investees' net assets was attributable to the elimination of unrealized profits on the sales of certain media display equipment to its investees; and the adjustment attributable to intangible assets, which represent the broadcasting rights contributed by the investors, identified on formation and its related amortization.

**10. OTHER INVESTMENTS**

In 2006, the Group acquired a 25% voting interest in Shenzhen Mobile, through VisionChina Media Group's subsidiary, Shenzhen HDTV. Shenzhen Mobile was established in the PRC and engages in the provision of digital mobile television advertising services in the PRC. As the Group cannot exercise significant influence over Shenzhen Mobile's operating and financial activities, the Group accounts for this investment using the cost method of accounting.

In 2006, the Group acquired a 14% voting interest in Wuxi Guangtong Digital Mobile Television Company Limited ( Guangtong Mobile ). During the year ended December 31, 2009, all shareholders of Guangtong Mobile made an additional capital injection and in order to retain the same percentage of ownership, the Company also made an additional capital injection of \$389,048. Guangtong Mobile was established in the PRC and engages in the provision of digital mobile television advertising business in the PRC. The Group accounts for this investment using the cost method of accounting.



**Table of Contents**

VISIONCHINA MEDIA INC.  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
 (Amounts in U.S. Dollars ( \$ ), except number of shares)

**11. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES**

Accrued expenses and other current liabilities consist of the following:

	December 31,	
	2008	2009
Accrued expenses	\$ 1,387,735	\$ 1,415,666
Accrued direct offering expenses	278,902	
Accrued professional service fees	962,513	463,377
Accrued payroll and welfare	2,902,723	4,086,989
Other taxes payable	1,010,528	1,746,943
Customer deposits	919,938	1,107,594
Deferred revenue	253,128	2,011
Other	1,791,874	503,628
	<b>\$ 9,507,341</b>	<b>\$ 9,326,208</b>

**12. BANK LOANS**

During the year ended December 31, 2009, the Company obtained an unsecured two-year term bank loan from the Bank of China in Shenzhen, the PRC ( BOC (SZ) ) in the amount of \$731,294. The interest rate is fixed at 90% of the People s Bank of China benchmark rate. The borrowing is denominated in RMB.

The Company also obtained a secured one-year term bank loan from the Bank of China in Macau ( BOC (Macau) ) in the amount of \$40,800,000. The interest rate is fixed at 1.72% per annum. The borrowing is denominated in US dollars. Due to foreign currency exchange regulation, in order for the Group to borrow amounts denominated in currencies other than RMB, one of the Company s subsidiaries in the PRC entered into an arrangement with BOC(SZ) pursuant to which this subsidiary placed a deposit denominated in RMB in the amount of \$64,368,455, and BOC (Macau) provided this loan to another subsidiary of the Company incorporated in Hong Kong in US dollars.

There were no restrictive financial covenants associated with these loans.

**13. COMMON SHARES**

The Company s Memorandum and Articles of Association, as amended, authorizes the Company to issue 50,000,000 common shares with a nominal or par value of \$0.0001 each. Upon completion of the initial public offering ( IPO ) in December 2007, the Company s Memorandum and Articles of Association, as amended, authorized the Company to issue 200,000,000 common shares with a nominal or par value of US\$0.0001 each. There were 68,386,838 common shares issued and outstanding as of December 31, 2007 after conversion of 14,250,000 Series A and 17,889,088 Series B convertible redeemable preferred shares to 32,139,088 common shares upon completion of the IPO, 13,500,000 common shares issued in connection with the IPO, and 747,750 share options were exercised with the issuance of 747,750 common shares during the year ended December 31, 2007.

There were 71,819,442 common shares issued and outstanding as of December 31, 2008 after issuance of 1,150,000 common shares in connection with the follow-on offering, 2,564,004 share options and restricted shares were exercised with the issuance of 2,564,004 common shares, and 281,400 common shares were repurchased by the Company during the year ended December 31, 2008.

There were 72,140,684 common shares issued and outstanding as of December 31, 2009 after 980,222 share options and restricted shares were exercised with the issuance of 980,222 common shares, and 658,980 common shares were repurchased by the Company during the year ended December 31, 2009.

**Table of Contents**

VISIONCHINA MEDIA INC.  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
 (Amounts in U.S. Dollars ( \$ ), except number of shares)

**14. SHARE INCENTIVE PLAN**

On December 8, 2006, the Group adopted the 2006 share incentive plan (the Plan) which allows the Group to offer a variety of incentive awards to consultants and employees. The Group reserved 7,000,000 ordinary shares in 2006 and 2007 for issuance under the Plan. In December 2008, the total number of share issuable under the Plan was increased to 8,000,000 shares. In 2007, the Group granted 3,996,639 share options to consultants and employees with exercise prices ranging from \$1.00 and \$6.545. In 2008, the Group granted 925,000 share options to employees with exercise prices ranging from \$5.82 to \$18.00. In 2008, the Group also granted 288,000 restricted shares to consultants and employees. In 2009, the Group granted 649,550 share options to employees with exercise prices ranging from \$5.48 to \$8.53. In 2009, the Group also granted 500,000 restricted shares to consultants and employees.

The contractual term of the options granted is generally ten years. The majority of the options granted vest 25% after the first year of service and ratably over the remaining 36-month period, and certain of the options vest based on certain performance conditions. Included in the 649,550 share options granted during 2009 are 63,700 options that would vest based on certain performance conditions. Included in the 925,000 share options granted during 2008 are 394,500 options that would vest based on certain performance conditions. Included in the 3,996,639 share options granted in 2007 are 2,506,748 options that would vest based on certain performance conditions.

Management has used the Black-Scholes option pricing model to estimate the fair value of the options on grant date with the following weighted-average assumptions:

	2007	2008	2009
Risk-free interest rate	0.42-5.31%	0.51-3.65%	1.11-2.69%
Expected life	1.72-2.67 years	0.25-4 years	2.5-4 years
Expected volatility	0.31-0.361	0.382-1.122	1.18-1.32
Expected dividends	0%	0%	0%

Expected volatility was determined by reference to the historical volatility of the Company or the average annualized standard deviation of the share price of listed comparable companies. The expected life of the options is based on the assumption that they will be exercised evenly throughout the option life. The risk free interest rate is based on the yield to maturity of the PRC government bond as of the grant date with maturity closest to the relevant option expiry date.

The fair value of the options granted in April and May 2007 were determined on a contemporaneous basis by the management of the Company, with reference to Series B convertible redeemable preferred shares. For the options granted on July 6, 2007, August 30, 2007 and October 31, 2007, the fair values of the options were determined on contemporaneous basis by a third party valuation specialist. The fair values of options granted in 2008 and 2009 were determined on contemporaneous basis by management of the Company with reference to the market value of the Company's shares.

**Table of Contents**

VISIONCHINA MEDIA INC.  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
 (Amounts in U.S. Dollars ( \$ ), except number of shares)

**14. SHARE INCENTIVE PLAN** continued

A summary of share options under the Plan during the years ended December 31, 2007, 2008 and 2009 is presented below:

	Number of shares	Weighted- average exercise price	Weighted- average remaining contractual life	Weighted- average fair value
Outstanding as of January 1, 2007	1,894,000	\$ 0.86		\$ 0.19
Granted				
April 6, 2007	800,739	1.90		0.22
May 16, 2007	200,000	1.84		0.33
July 6, 2007	1,230,000	3.545		0.04
August 30, 2007	1,005,900	6.545		0.07
October 31, 2007	760,000	6.545		1.30
Exercised	(747,750)	0.86		0.21
Forfeited	(304,530)	1.65		0.18
Outstanding as of December 31, 2007	4,838,359	\$ 3.78	9.46	\$ 0.31
Granted				
March 14, 2008	445,000	\$ 10.19		\$ 2.46
June 3, 2008	128,000	18.00		6.01
June 23, 2008	100,000	12.64		10.09
September 29, 2008	170,000	15.54		5.37
December 11, 2008	82,000	5.82		2.48
Exercised	(2,525,893)	4.31		0.37
Forfeited	(468,916)	9.06		1.97
Outstanding as of December 31, 2008	2,768,550	\$ 5.19	8.58	\$ 1.30
Granted				
January 22, 2009	25,100	\$ 6.60		\$ 4.63
March 4, 2009	47,450	5.81		4.48
June 17, 2009	55,000	5.48		4.48
June 29, 2009	250,000	6.03		4.86
September 6, 2009	76,000	5.85		4.74
October 8, 2009	196,000	8.53		7.18
Exercise	(423,139)	1.75		0.22
Forfeited	(595,303)	9.69		4.39
Outstanding as of December 31, 2009	2,399,658	\$ 5.10	8.00	\$ 1.87

Vested and expected to vest as of December 31, 2009	2,221,399	\$ 4.93	7.91	\$ 1.77
Exercisable as of December 31, 2009	1,284,424	\$ 4.01	7.43	\$ 0.50

The aggregate intrinsic value of the outstanding share options was \$14,180,095 as of December 31, 2009 and the aggregate intrinsic value of options exercisable as of December 31, 2009 was \$8,926,553. The aggregate intrinsic value of options vested and expected to vest as of December 31, 2009 was \$13,421,767.

The aggregate intrinsic values of options exercised during the years ended December 31, 2008 and 2009 were \$38,778,583 and \$3,879,831, respectively.

F-27

---

**Table of Contents**

VISIONCHINA MEDIA INC.  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
 (Amounts in U.S. Dollars ( \$ ), except number of shares)

**14. SHARE INCENTIVE PLAN** continued

A summary of restricted shares under the Plan during the years ended December 31, 2007, 2008 and 2009 is presented below:

	Number of shares	Weighted average fair value
Outstanding as at January 1, 2007 and December 31, 2007		
Granted	288,000	8.81
Forfeited	(45,000)	9.70
Vested	(38,111)	6.95
Outstanding as of December 31, 2008	204,889	\$ 8.96
Granted	500,000	5.81
Forfeited	(57,083)	7.25
Vested	(557,083)	6.33
Outstanding as of December 31, 2009	90,723	8.80

Restricted shares are granted subject to certain restrictions. The majority of the restricted shares generally vest 25% after the first year of service and rateably over the remaining 36-month period, and certain of the restricted shares vest based on certain performance conditions. All the restricted shares granted during 2009 would vest based on certain performance conditions. Included in the 288,000 restricted shares granted during 2008 are 135,000 restricted shares that would vest based on certain performance conditions.

The total share-based compensation expense in relation to options and restricted shares recognized in the statements of operations for the years ended December 31, 2007, 2008 and 2009 was \$221,362, \$1,467,057 and \$4,332,111, respectively.

As of December 31, 2009, there was \$3,633,894 of total unrecognized share-based compensation cost related to non-vested share options and non-vested restricted shares granted under the Plan. That cost is expected to be recognized over 4 years.



**Table of Contents**

VISIONCHINA MEDIA INC.  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
(Amounts in U.S. Dollars ( \$ ), except number of shares)

**15. INCOME TAXES**

The Company is a tax exempted company incorporated in the Cayman Islands and conducts substantially all of its business through its PRC subsidiary, CDTC, and its VIE, VisionChina Media Group.

*Cayman Islands and British Virgin Islands*

The Company was incorporated in the Cayman Islands; Aim, Century, Golden, Goldwhite, Peak, Ahead, Vision Best and Digital Value were incorporated in BVI, and they are all not subject to income tax. In addition, upon payments of dividends by the Company to its shareholders, no Cayman Islands or BVI withholding tax will be imposed.

*Hong Kong*

The Company's subsidiaries established in HK are subject to HK profits tax on all profits (excluding profits arising from the sale of capital assets, dividend income and interest income) arising in or derived from HK from its trade, profession or business. The normal applicable profits tax rates for the years of assessment 2007/2008 and 2008/2009 are 17.5% and 16.5%, respectively.

*PRC*

Before the new enterprise income tax ( EIT ) law in the PRC (the New EIT Law ) and its implementation regulations became effective on January 1, 2008, a foreign invested enterprise satisfying certain criteria could enjoy preferential tax treatments. CDTC, located in the Shenzhen Special Economic Zone, was subject to Foreign Enterprise Income Tax ( FEIT ) at a rate of 15%. As its headquarters are located in the Shenzhen Special Economic Zone, VisionChina Media Group is subject to EIT at a rate of 15%. In addition, VisionChina Media Group was recognized as a Culture Enterprise and thus its headquarters were entitled to a full exemption from EIT from 2006 to 2008. VisionChina Media Group has sales branches located in various cities in the PRC which were subject to 30% EIT and 3% local income tax.

On January 1, 2008, the New EIT Law took effect. It applies a uniform tax rate of 25% for all enterprises (including foreign-invested enterprises) and revoked the current tax exemption, reduction and preferential treatments applicable to foreign-invested enterprises. However, there will be a transition period for enterprises, whether foreign-invested or domestic, that were receiving preferential tax treatments granted by relevant tax authorities. Enterprises that were subject to an EIT rate lower than 25% prior to January 1, 2008 may continue to enjoy the lower rate and gradually transition to the new tax rate over the five year period after the effective date of the New EIT Law. According to the implementation regulations, during the transition period the EIT rate for CDTC is 18%, 20%, 22%, 24% and 25% in the years 2008, 2009, 2010, 2011 and 2012, respectively.

In addition, the Ministry of Finance of the PRC and the State Administration of Taxation issued a circular Notice on preferential tax treatment of enterprise income tax in February 2008. The circular stipulates that newly established culture enterprises can enjoy the corporate income tax exemption treatment which has been approved by the authorities until the end of the holiday. VisionChina Media Group has already obtained the tax exemption approval certificate for year 2008 and thus continued to enjoy a full exemption from EIT in 2008. Further, in accordance with another circular issued in November 2008, VisionChina Media Group has been recognized as a state-encouraged high-new technology enterprise starting from 2008, and the status is valid for a period of three years. Under the New EIT Law, a high-new technology enterprise is entitled to a preferential tax rate of 15%. As such, the EIT rate for VisionChina Media Group is 0%, 15%, 15%, 24% and 25% in the year of 2008, 2009, 2010, 2011 and 2012, respectively.

**Table of Contents**

VISIONCHINA MEDIA INC.  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
 (Amounts in U.S. Dollars ( \$ ), except number of shares)

**15. INCOME TAXES** continued

Xian Huachangshi was established subsequent to the promulgation of the New EIT Law and as such, it is subject to the uniform income tax rate of 25%.

Luzhou Huashi was established in Sichuan. It is recognized as a Local government encouraged company and is entitled to exemption from EIT for the years ended December 31, 2008 and 2009, and reduced tax rate of 7.5% for the years ending December 31, 2010, 2011 and 2012.

The Company's other subsidiaries in the PRC have minimal operations and the Group has minimal operations in jurisdictions other than the PRC.

The current and deferred components of the income tax (benefits) expenses appearing in the consolidated statements of operations are as follows:

	Year ended December 31,		
	2007	2008	2009
Current tax	\$	\$ 39,108	\$ 2,531,392
Deferred tax	(332,386)	(251,433)	(183,138)
	\$ (332,386)	\$ (212,325)	\$ 2,348,254

The principal components of the Group's deferred income tax assets are as follows:

	December 31,	
	2008	2009
Deferred tax assets:		
Net operating loss carrying forward	\$ 1,235,881	\$ 2,154,303
Total deferred tax assets	1,235,881	2,154,303
Valuation allowance on deferred tax assets	(962,556)	(2,112,994)
Net deferred tax assets	\$ 273,325	\$ 41,309
Deferred tax liabilities		
Intangible assets	\$ 2,924,073	\$ 2,503,125
Total deferred tax liabilities	\$ 2,924,073	\$ 2,503,125

**Table of Contents**

VISIONCHINA MEDIA INC.  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
 (Amounts in U.S. Dollars ( \$ ), except number of shares)

**15. INCOME TAXES** continued  
 Movement of valuation allowance

	2007	2008	2009
At the beginning of the year	\$ 128,357	\$ 207,759	\$ 962,556
Exchange realignment		14,376	(2,070)
Change in tax rate		11,976	24,248
Current year addition	79,402	728,445	1,128,260
At the end of the year	\$ 207,759	\$ 962,556	\$ 2,112,994

A valuation allowance has been provided on the deferred tax assets because the Group believes that it is not more likely than not that the assets will be utilized. As of December 31, 2008 and 2009, a valuation allowance was provided for the deferred tax assets relating to the future benefit of net operating loss carryforward as the management determined that the utilization of those net operating loss carryforward is not more likely than not. If events occur in the future that allow the Group to realize more of its deferred tax assets than the presently recorded amount, an adjustment to the valuation allowance will be made when those events occur.

As of December 31, 2007, the Group had net operating loss carryforward of approximately \$207,207, \$351,579 and \$1,846,589 that will expire in the years ending December 31, 2010, 2011 and 2012, respectively.

As of December 31, 2008, the Group had net operating loss carryforward of approximately \$207,207, \$351,579, \$1,846,589 and \$3,054,018 that will expire in the years ending December 31, 2010, 2011, 2012 and 2013, respectively.

As of December 31, 2009, the Group had net operating loss carryforward of approximately \$207,207, \$351,579, \$636,400, \$3,054,018 and \$4,595,515 that will expire in the years ending December 31, 2010, 2011, 2012, 2013 and 2014, respectively.

A reconciliation of the income tax (benefits) expenses to the amount computed by applying the current tax rate to income before income taxes in the statements of operations is as follows:

	Year ended December 31,		
	2007	2008	2009
Expected taxation at PRC EIT statutory rate of 25% (2008: 25% and 2007: 33%)	\$ 3,099,808	\$ 11,626,587	\$ 7,206,054
Effect of different tax rates		(36,866)	(55,207)
Effect of loss that cannot be carried forward		370,960	1,474,310
Tax expense arising from items which are not deductible or not taxable for tax purpose:			
non-deductible entertainment expenses		472,294	766,046
others, net		58,474	280,650
Effect of tax exemption	(3,511,596)	(13,432,219)	(8,412,656)
Overprovision in prior year			(39,203)
Change in valuation allowance	79,402	728,445	1,128,260
Total income tax (benefit) expenses	\$ (332,386)	\$ (212,325)	\$ 2,348,254



**Table of Contents**

VISIONCHINA MEDIA INC.  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
 (Amounts in U.S. Dollars ( \$ ), except number of shares)

**15. INCOME TAXES** continued

The amounts of \$3,511,596, \$13,432,219 and \$8,412,656 would otherwise have been payable without tax holidays and tax concessions for the years ended December 31, 2007, 2008 and 2009, respectively. In addition, \$0.14, \$0.19 and \$0.12 would have been deducted from the basic income per share for the years ended December 31, 2007, 2008 and 2009, respectively.

Uncertainties exist with respect to how the PRC's current income tax law applies to the Company's overall operations, and more specifically, with regard to tax residency status. The New EIT Law includes a provision specifying that legal entities organized outside of the PRC will be considered residents for PRC income tax purposes if their place of effective management or control is within PRC. The Implementation Rules to the New Law provide that non-resident legal entities will be considered PRC residents if substantial and overall management and control over the manufacturing and business operations, personnel, accounting, properties, etc. occurs within the PRC. The Company does not believe that its legal entities organized outside of the PRC should be treated as residents for the New EIT Law's purposes. If one or more of the Company's legal entities organized outside of the PRC were characterized as PRC tax residents, the impact would adversely affect the Company's results of operation.

Aggregate undistributed earnings of the Company's subsidiaries and VIE in the PRC that are available for distribution to the Company of approximately \$86 million at December 31, 2009 are considered to be indefinitely reinvested under FASB ASC 740, and accordingly, no provision has been made for the PRC dividend withholding taxes that would be payable upon the distribution of those amounts to the Company. In an announcement formally made on February 22, 2008, the PRC authorities clarified that the distributions made out of undistributed earnings that arose prior to January 1, 2008 would not give rise to withholding tax.

Under US GAAP, a deferred tax liability should be recorded for taxable temporary differences attributable to the excess of financial reporting amounts over tax basis amounts, including those differences attributable to a more than 50% interest in a domestic subsidiary. However, recognition is not required in situations where the tax law provides a means by which the reported amount of that investment can be recovered tax-free and the enterprise expects that it will ultimately use that means. The Company has not recorded any such deferred tax liability attributable to the undistributed earnings of its financial interest in VIE affiliate because it believes such excess earnings can be distributed in a manner that would not be subject to tax.

The Group has made its assessment of the level of tax authority for each tax position (including the potential application of interest and penalties) based on the technical merits, and has measured the unrecognized tax benefits associated with the tax positions. Based on this evaluation, the Group has concluded that there are no significant uncertain tax positions requiring recognition in financial statements. The Group does not anticipate any significant increases or decreases to its liability for unrecognized tax benefits within the next twelve months. The Group classifies interest and/or penalties related to income tax matters in income tax expense. As of December 31, 2009, there are no interest and penalties related to uncertain tax positions. The years 2005 to 2009 remain subject to examination by the PRC tax authorities.

**Table of Contents**

VISIONCHINA MEDIA INC.  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
 (Amounts in U.S. Dollars ( \$ ), except number of shares)

**16. PRC CONTRIBUTION PLAN**

The Group's full time employees in the PRC participate in a government-mandated multiemployer defined contribution plan pursuant to which certain medical care unemployment insurance, employee housing fund and other welfare benefits are provided to employees. The PRC labor regulations require the Group to accrue for these benefits based on certain percentages of the employees' salaries. The total contributions for such employee benefits for the years ended December 31, 2007, 2008 and 2009 were \$53,387, \$483,065 and \$743,516, respectively.

**17. COMMITMENTS AND CONTINGENCY**

## (a) Lease commitments

The Group has entered into certain leasing arrangements relating to the lease of the Group's office premises. Rental expense under operating leases for the years ended 2007, 2008 and, 2009 was \$373,917, \$640,007 and \$1,007,991, respectively.

As of December 31, 2009, the Group was obligated under certain operating leases, relating to the rental of office premises, requiring minimum rental payments as follows:

Year ending December 31,	
2010	\$ 977,672
2011	476,199
2012	158,311
2013	127,475
2014	127,475
2015 and thereafter	169,856
	\$ 2,036,988

## (b) Other commitments

The Group has entered into several agreements to pay media costs for periods of 5 to 10 years. As of December 31, 2009, future minimum purchase commitments under these agreements totalled approximately \$189,600,000, which will be payable as follow:

Year ending December 31,	
2010	\$ 46,531,000
2011	42,455,000
2012	32,451,000
2013	24,223,000
2014	18,802,000
2015 and thereafter	25,138,000
	\$ 189,600,000

**Table of Contents**

VISIONCHINA MEDIA INC.  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
 (Amounts in U.S. Dollars ( \$ ), except number of shares)

**17. COMMITMENTS AND CONTINGENCY** continued

## (c) Significant legal proceedings

In February 2008, Xiamen Towona Culture Media Co., Ltd. ( Xiamen Towona ) filed a claim against Shanxi Mobile TV Co., Ltd. ( Shanxi Mobile TV ) in the Taiyuan Intermediate People s Court (the Taiyuan Court ) and VisionChina Media Group was a third party defendant. In the complaint, Xiamen Towona alleged that Shanxi Mobile TV terminated the exclusive agency agreement in Taiyuan with Xiamen Towona without justification. Xiamen Towona sought specific performance of the agreement and monetary damages in the amount of RMB8.0 million. The judgment was issued during the year ended December 31, 2008, and delivered to the Company during the year ended December 31, 2009, rejecting all of the plaintiffs claims. Accordingly, no significant impact to the Group s financial position is expected.

In July 2008, Xiamen Towona and Guangzhou Towona Mobile Digital Advertisement Media Co., Ltd. ( Guangzhou Towona ) jointly filed a claim against Guangzhou Third Bus Company and VisionChina Media Group in the Yuexiu District People s Court in Guangzhou (the Yuexiu Court ). In the complaint, Xiamen Towona and Guangzhou Towona alleged that Guangzhou Third Bus Company and VisionChina Media Group removed digital television displays installed by Xiamen Towona and Guangzhou Towona and replaced them with displays bearing the Group s logo. Xiamen Towona and Guangzhou Towona requested equitable remedies from the Yuexiu Court. The trial court issued its judgment on December 19, 2008 rejecting all of the plaintiffs claims. The plaintiffs appealed the case to Guangzhou Intermediary People s Court. The judgment was delivered during the year ended December 31, 2009 upholding the original judgment. Accordingly, no significant impact to the Group s financial position is expected.

## (d) Other

The National Standard of Frame Structure and Channel Code and Modulation of Digital Television Ground Broadcasting Transmission System (the National Standard ), was approved by the Standardization Administration of the PRC on August 18, 2006, and became effective on August 1, 2007. On March 27, 2006, the PRC State Administration of Radio, Film and Television ( SARFT ) promulgated the Notice Concerning Experimental Mobile Digital Television (the March Notice ), which required all of the Group s local operating partners must adopt the National Standard for their mobile digital television operations and the SARFT has officially issued a notice to require some of the Group s local operating partners and direct equity investment entities to complete the adoption of the National Standard by June 30, 2010. As of April 1, 2010, the mobile digital television network of the Group s direct equity investment entities and the digital television broadcasting infrastructure of the Group s local operating partners in 11 cities have been converted to the National Standard, but those in another 10 cities have not yet completed the conversion and do not meet the requirements of the National Standard. The Group s direct equity investment entities and local operating partners may be required to spend significant capital and other resources, including on new equipment, to convert their digital television broadcasting infrastructure to the National Standard. Under some of the Group s exclusive advertising agency agreements, the Group may be responsible for a portion of such expenditures. However, as there is no reliable basis for management to accurately estimate the amount and timing of capital expenditures required for these local operating partners and the Group to comply with the National Standard, no accrual for such liability has been made in the consolidated financial statements.

**Table of Contents**

VISIONCHINA MEDIA INC.  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
 (Amounts in U.S. Dollars ( \$ ), except number of shares)

**18. SEGMENT AND GEOGRAPHIC INFORMATION**

The Group is engaged in the provision in advertising services and the sales of digital equipment to its investee companies in the PRC. The Group's chief operating decision maker has been identified as the Chief Executive Officer, who reviews the consolidated results when making decisions about allocating resources and assessing performance of the Group.

***Geographical information***

The Group operates in the PRC and all of the Group's identifiable assets are located in the PRC.

Although the Group operates in multiple cities in the PRC which include Beijing, Guangzhou, Shenzhen, Nanjing and other cities, it believes it operates in one segment as the Group provides services to customers irrespective of their locations. Accordingly all relevant information about the Group's operations can be found in the consolidated financial statements.

***Major Customers***

The Group contracts either directly with advertisers or through advertising agents. For the years ended December 31, 2008 and 2009, there were no single advertisers or advertising agents that contributed 10% or more of the Group's net revenue.

In 2007, the Group had not directly contracted with any individual advertiser that accounted for 10% or more of the total advertising service revenue, but had contracted with the following advertising agents that accounted for 10% or more of the total advertising service revenue:

	2007
Agent A	\$4,770,915
Agent B	3,870,064
Agent C	3,554,534
Agent D	3,117,335

The accounts receivable from customers with balances over 10% of the accounts receivable, net are as follows:

	Percentage of accounts receivable	
	2008	2009
	%	%
Agent A	16.04	N/A
Agent B	12.79	N/A
Agent C	N/A	12.47
Agent D	N/A	11.19



**Table of Contents**

VISIONCHINA MEDIA INC.  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
 (Amounts in U.S. Dollars ( \$ ), except number of shares)

**19. RELATED PARTY TRANSACTIONS**

(a) Details of amounts due from related parties as of December 31, 2008 and 2009 are as follows:

	December 31,	
	2008	2009
Chengdu Mobile	\$ 538,220	\$ 580,025
Dalian Mobile	196,907	
Hubei Mobile	100,178	186,621
Jilin Mobile	504,238	513,514
Suzhou Mobile	27,167	54,847
Changzhou Mobile	482,753	614,358
Ningbo Mobile	1,032,761	
Shenzhen Mobile	2,149,863	2,170,838
Guangtong Mobile	193,477	214,269
	\$ 5,225,564	\$ 4,334,472

The amounts due from related parties are non-interest bearing and repayable on demand.

(b) Details of amounts due to related parties as of December 31, 2008 and 2009 are as follows:

	December 31,	
	2008	2009
Chengdu Mobile	\$ 29,135	\$
Dalian Mobile	124,471	19,132
Haerbin Mobile	8,179	2,194
Hubei Mobile	29,616	29,552
Jilin Mobile	51	
Henan Mobile	11,991	36,902
Suzhou Mobile	33,365	
Ningbo Mobile	472,805	64,162
Changzhou Mobile	2,348	2,343
Shenzhen Meidi Zhiye Development Co., Ltd. ( Zhiye )	70,897	27,800
Shenzhen Champs Elysees Renovations Co., Ltd. ( Champs Elysees )	3,426	30,944
	\$ 786,284	\$ 213,029

The amounts due to related parties are non-interest bearing and repayable on demand.

Zhiye is a company in which the chief executive officer of the Company holds a beneficial interest and Champs Elysees is a company in which the chief executive officer's wife holds a beneficial interest.

The amounts due from/to related parties mainly arise from trading transactions with related parties (such as sales of advertising equipment to related parties and/or receipt of services rendered by related parties) and payments of expenses on behalf of the related parties.



**Table of Contents**

VISIONCHINA MEDIA INC.  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
 (Amounts in U.S. Dollars ( \$ ), except number of shares)

**19. RELATED PARTY TRANSACTIONS** continued

## (c) Advertising equipment sales to investee companies

The Group sold digital equipment at negotiated price to related parties for a total amount of, \$1,896,200, \$565,392 and Nil for the years ended December 31, 2007, 2008 and 2009, respectively. Details are as follows:

	Year ended December 31,		
	2007	2008	2009
Chengdu Mobile	\$ 158,605	\$ 15,531	\$
Dalian Mobile	229,822		
Haerbin Mobile	6,567		
Henan Mobile	128,455	162,546	
Hubei Mobile	148,042		
Suzhou Mobile	216,571	157,352	
Changzhou Mobile	313,558	150,407	
Ningbo Mobile	694,580	79,556	
	\$ 1,896,200	\$ 565,392	\$

## (d) Services rendered by investee companies

The Group has received broadcasting service from related parties at negotiated prices for a total amount of \$2,708,389, \$7,989,832 and \$10,251,290 for the years ended December 31, 2007, 2008 and 2009, respectively. Details are as follows:

	Year ended December 31,		
	2007	2008	2009
Chengdu Mobile	\$ 76,441	\$ 1,007,951	\$ 1,105,108
Dalian Mobile	40,668	883,650	1,178,596
Guangtong Mobile	102,531	345,491	521,450
Jilin Mobile	19,228	274,013	451,700
Hubei Mobile	7,665	430,587	617,992
Haerbin Mobile	3,364	51,333	15,286
Ningbo Mobile	6,769	1,334,749	1,281,127
Suzhou Mobile	8,849	133,183	303,346
Changzhou Mobile	1,897	268	408,225
Henan Mobile		41,325	101,198
Shenzhen Mobile	2,440,977	3,487,282	4,267,262
	\$ 2,708,389	\$ 7,989,832	\$ 10,251,290

**Table of Contents**

VISIONCHINA MEDIA INC.  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
(Amounts in U.S. Dollars ( \$ ), except number of shares)

**19. RELATED PARTY TRANSACTIONS** continued

(e) Rental expense

During the years ended December 31, 2008 and 2009, the Group rented office space from Zhiye. The rate for rent was determined based on negotiated prices. The rental expense for the years ended December 31, 2008 and 2009 was \$163,511 and \$191,758 respectively.

(f) Others

In March 2007, the Group borrowed an aggregate amount of \$2,246,453 from Zhiye. The amount was interest-free and fully repaid as of December 31, 2007.

For the years ended December 31, 2007, 2008 and 2009, the Group paid office decoration charges of \$347,029, \$194,101 and \$236,124, respectively, to a company, in which the chief executive officer's wife holds a beneficial interest. During the years ended December 31, 2007, 2008 and 2009, the Group also paid property management fees and utility expenses of Nil, \$22,661 and \$26,820 respectively, to a company, in which the chief executive officer's wife holds a beneficial interest.

**20. PROFIT APPROPRIATION**

In accordance with the Regulations on Enterprises with Foreign Investment of China and their articles of association, the Company's subsidiaries, being foreign invested enterprises established in China, are required to provide certain statutory reserves, namely general reserve fund, enterprise expansion fund and staff welfare and bonus fund, all of which are appropriated from net profit as reported in their PRC statutory accounts. The Company's subsidiaries are required to allocate at least 10% of their after-tax profits to the general reserve fund until such fund has reached 50% of their respective registered capital. Appropriations to the enterprise expansion fund and staff welfare and bonus fund are at the discretion of the board of directors of the Company's subsidiaries.

In accordance with the PRC Company Laws, the Company's VIE and its subsidiaries must make appropriations from their after-tax profits as reported in their PRC statutory accounts to non-distributable reserve funds, namely statutory surplus, statutory public welfare and discretionary surplus funds. The Company's VIE and its subsidiaries are required to allocate at least 10% of their after-tax profits to the statutory surplus fund until such fund has reached 50% of their respective registered capital. Appropriations to the statutory public welfare fund and discretionary surplus fund are at the discretion of the Company's VIE and its subsidiaries.

The general reserve fund and statutory surplus fund are restricted to set-off against losses, expansion of production and operation and increasing registered capital of the respective company. The staff welfare and bonus and statutory public welfare funds are restricted to capital expenditures for the collective welfare of employees. These reserves are not allowed to be transferred to the Company in terms of cash dividends, loans or advances, nor can they be distributed except under liquidation.

There were no appropriations to reserves by the Company other than the Company's VIE and certain of the VIE's subsidiaries in the PRC during any of the periods presented. During the years ended December 31, 2007, 2008 and 2009, approximately \$767,948, \$5,597,415 and \$4,249,280 was appropriated from retained earnings to the statutory surplus reserve, respectively.

**Table of Contents**

VISIONCHINA MEDIA INC.  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
 (Amounts in U.S. Dollars ( \$ ), except number of shares)

**21. RESTRICTED NET ASSETS**

Under PRC laws and regulations, there are certain restrictions on the Company's PRC subsidiaries and VIE with respect to transferring certain of their net assets and reserves to the Company either in the form of dividends, loans, or advances. Amounts restricted include paid up capital and reserves of the Company's PRC subsidiaries and VIE, totaling approximately \$172,216,501 and \$205,369,450 as of December 31, 2008 and 2009, respectively.

**22. CONVERTIBLE REDEEMABLE PREFERRED SHARES**

In April 2006, the Company issued 14,250,000 Series A convertible redeemable preferred shares ( Series A Preferred Share(s) ) for \$1 per share for total proceeds of \$13,636,994, net of issuance costs of \$613,006. In March and July 2007, the Company issued an aggregate of 17,889,088 Series B convertible redeemable preferred shares ( Series B Preferred Share(s) ) for \$2.236 per share for total proceeds of \$38,264,439, net of issuance costs of \$1,735,561. The Series A Preferred Shares and Series B Preferred Shares are collectively referred to as the Preferred Share(s) . No preferred shares were issued and outstanding in 2008 and 2009.

As of December 31, 2006, the Company had 14,250,000 Series A Preferred Shares outstanding. Upon completion of the IPO in December 2007, all convertible preferred shares automatically converted into 32,139,088 common shares.

***Movement of convertible redeemable preferred shares***

At January 1, 2007	\$ 15,220,327
Issuance of convertible redeemable preferred shares	38,264,439
Deemed dividend	6,625,262
Conversion into common shares	(60,110,028)
At December 31, 2007, 2008 and 2009	\$

The holders of Preferred Shares have various rights and preferences as follows:

***Redemption***

The Preferred Shares are not redeemable at the option of holders of the Preferred Shares except:

- (1) Optional redemption beginning on April 13, 2009; or upon suspension or termination of wireless television signals representing more than 50% of the Company's television network. The redemption price for each of Preferred Shares shall be equal one hundred and fifty percent (150%) of the applicable original issue price, plus in each case all dividends declared and unpaid with respect thereto per Preferred Share then held by such holder; or
- (2) Insufficient funds. If the Company's assets or funds which are legally available on the date that any redemption payment is due are insufficient to pay in full all redemption payments to be paid on such date, those assets and fund funds which are legally available shall be used to pay all redemption payments due on such date ratably in proportion to the full amounts to which the holders to which such redemption payments are due would otherwise be respectively entitled thereon.

The Company accrued the premium over the redemption period as a deemed dividend with a charge against the deficit of \$6,625,262 for the year ended December 31, 2007.

**Table of Contents**

VISIONCHINA MEDIA INC.  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
(Amounts in U.S. Dollars ( \$ ), except number of shares)

**22. CONVERTIBLE REDEEMABLE PREFERRED SHARES** continued

***Dividends***

Each holder of Preferred Shares shall be entitled to receive dividends, on a pari passu basis, out of any funds or assets legally available therefor, prior and in preference to any declaration or payment of any dividend on the common shares, at 8% in respect of such Preferred Shares when, as and if declared by the Board of Directors, but not otherwise. All such dividends per Preferred Share shall be cumulative from the date that the Board of Directors declares such dividends.

***Conversion***

Subject to the provisions of the Memorandum and the Articles, Preferred Shares may, at the option of the holder thereof, be converted at any time into fully-paid and nonassessable common shares based on the applicable then-effective conversion price. The initial conversion price for Series A Preferred Shares and Series B Preferred Shares shall be US\$1.00 and US\$2.236, respectively, and the initial per share conversion ratio for Preferred Shares to common shares shall be 1:1, which shall be subject to adjustment subject to adjustment for stock dividends, stock splits, combinations and similar events. Each Preferred Share shall automatically be converted into common shares upon the closing of a qualified initial public offering, based on the applicable then-effective conversion price.

***Voting***

Subject to the provisions of the Memorandum and the Articles, at all general meetings of the Company: (i) the holder of each common share issued and outstanding shall have one vote in respect of each common share held, and (ii) the holder of Preferred Shares shall be entitled to such number of votes as equals the whole number of common shares into which such holder's collective Preferred Shares are convertible immediately after the close of business on the record date of the determination of the Company's shareholders entitled to vote or, if no such record date is established, at the date such vote is taken or any written consent of the Company's shareholders is first solicited. Subject to provisions to the contrary elsewhere in the memorandum and the Articles, or as required by the Statute, the holders of Series A Preferred Shares shall vote together with the holders of common shares, and not as a separate class or series, on all matters put before the shareholders.

***Liquidation***

Upon any liquidation, dissolution or winding up of the Company, either voluntary or involuntary, before any distribution or payment shall be made with respect to any common shares, an amount shall be paid on a pari passu basis with respect to each Preferred Share equal to the greater of (i) one hundred fifty percent (150%) of the applicable original issue price (as adjusted for any dividend of shares, division or combination of shares recapitalizations and the like) plus all dividends declared and unpaid with respect thereto; and (ii) a pro rata share of all funds and assets of the Company legally available for distribution to shareholders of the Company on the basis as if all the Preferred Shares were converted into common shares immediately before the holding of the general meeting, plus all declared but unpaid dividends thereon.

**Table of Contents**

VISIONCHINA MEDIA INC.  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
 (Amounts in U.S. Dollars ( \$ ), except number of shares)

**23. SUBSEQUENT EVENTS***Acquisition*

On October 15, 2009, the Company entered into a merger agreement with Digital Media Group Company Limited ( DMG ) to acquire a 100% equity interest in DMG, a leader in China s subway mobile television advertising market (the Acquisition ). The Acquisition will allow the Company to broaden its subway network and its already extensive bus network. Significant cost synergies and the addition of technological capabilities will allow the Company to enhance its profit position and allow the Company to have greater room for future expansion. The total consideration for the transaction is approximately \$167 million in cash and shares payable by the Company to eligible shareholders of DMG in three installments over two years including an initial installment of \$100 million payable at the closing of the transaction. The \$100 million payable will consist of \$40 million payable in cash and 8,476,013 common shares of the Company. Two subsequent installments of \$30 million each, in which \$20 million will be payable in cash and \$10 million payable, at the election of the participating DMG shareholders as a Group, either in cash or in common shares of the Company, will be paid on the first and second anniversaries of the closing of the transaction. The 8,476,013 common shares issued to the seller of DMG are subject to a one-year lock-up period. For the \$10 million payable in cash or in common shares of the Company in the first and second anniversaries of the closing of the transaction, if the participating DMG shareholders elected to receive common shares, these common shares will be subject to a lock-up period of 3 months from the date of issuance. The transaction cost in relation to the Acquisition is expected to be approximate to \$472,000.

Pursuant to the agreement, the Group paid the initial deposits of \$40 million as of December 31, 2009 as disclosed in note 6, and 8,476,013 common shares of the Company has been set aside.

The transaction has been approved by both companies boards of directors and closed in the first quarter of 2010.

The following table summarizes the unaudited fair values of the assets and liabilities, determined based on provisional estimation, assumed by the Group on the date of acquisition of DMG:

	Unaudited
Cash and cash equivalents	\$ 3,840,983
Restricted cash	42,409,500
Inventories	958,615
Other current assets	6,832,670
Fixed assets, net	6,795,102
Intangible assets, net	91,151,402
Other non-current assets	1,384,583
Short-term bank borrowings	(42,898,604)
Other current liabilities	(10,631,163)
Deferred tax liabilities non-current	(22,787,850)
Noncontrolling interest	(2,403)
	77,052,835
Goodwill	89,481,623





**Table of Contents**

VISIONCHINA MEDIA INC.  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
 (Amounts in U.S. Dollars ( \$ ), except number of shares)

**23. SUBSEQUENT EVENTS** continued

The following pro forma information summarizes the effect of the DMG acquisition, as if the acquisitions had occurred as of January 1, 2009. This pro forma financial information is presented for information purposes only. It is based on historical information and does not purport to represent the actual results that may have occurred had the Company consummated the acquisition on January 1, 2009, nor is it necessarily indicative of future results of operations of the consolidated enterprise.

	<b>Pro forma</b> Year ended December 31, 2009 (unaudited)
Revenue	\$140,917,542
Net loss	(34,320,800)

Goodwill arose in the business combination because the consideration paid effectively included the amounts in relation to the benefit of expected synergies, revenue growth, future technological development and the sale force of DMG.

**Bank borrowings**

Subsequent to December 31, 2009, the Company obtained the following loans:

1. A secured one-year term bank loan from the BOC (Macau) of \$20.4 million with an interest rate fixed at 1.59% per annum. This borrowing is denominated in US dollars.
2. An unsecured two-year term bank loan from the BOC (SZ) of approximately US\$57.8 million with interest rate fixed at 90% of the People's Bank of China benchmark rate. This borrowing is denominated in RMB.

F-42

---

**Table of Contents**

VISIONCHINA MEDIA INC.  
CONDENSED FINANCIAL INFORMATION OF REGISTRANT SCHEDULE I  
BALANCE SHEET

(Amounts in U.S. Dollars ( \$ ), except number of shares)

	December 31,	
	2008	2009
<b>ASSETS</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 56,152,920	\$ 6,961,436
Amounts due from subsidiaries	18,114,223	68,114,565
Prepaid expenses and other current assets	281,102	2,439
<b>Total current assets</b>	<b>\$ 74,548,245</b>	<b>\$ 75,078,440</b>
<b>Non-current Assets:</b>		
Fixed assets, net	\$ 66,012	\$ 93,676
Investment in subsidiaries and variable interest entities	173,896,938	205,794,723
<b>Total non-current assets</b>	<b>\$ 173,962,950</b>	<b>\$ 205,888,399</b>
<b>TOTAL ASSETS</b>	<b>\$ 248,511,195</b>	<b>\$ 280,966,839</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities:</b>		
Amounts due to subsidiaries	\$	\$ 6,157,970
Accrued expenses and other current liabilities	3,437,981	1,827,513
<b>Total liabilities</b>	<b>\$ 3,437,981</b>	<b>\$ 7,985,483</b>
<b>Non-current Liabilities:</b>		
<b>Equity</b>		
Common shares (\$0.0001 par value; 200,000,000 shares authorized; 71,819,442 and 72,140,684 shares issued and outstanding as of December 31, 2008 and 2009, respectively)	\$ 7,182	\$ 7,214
Additional paid-in capital	190,694,719	192,362,565
Accumulated profits	44,020,823	70,623,826
Accumulated other comprehensive income	10,350,490	9,987,751
<b>Total shareholders equity</b>	<b>\$ 245,073,214</b>	<b>\$ 272,981,356</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 248,511,195</b>	<b>\$ 280,966,839</b>



**Table of Contents**

VISIONCHINA MEDIA INC.  
 CONDENSED FINANCIAL INFORMATION OF REGISTRANT SCHEDULE I  
 STATEMENT OF OPERATIONS

(Amounts in U.S. Dollars ( US\$ ), except number of shares)

	Year ended December 31,		
	2007	2008	2009
General and administrative expenses	\$ (346,777)	\$ (2,884,499)	\$ (5,711,551)
Equity in income of subsidiaries and variable interest entities	9,426,329	48,252,862	32,260,524
Operating profit	9,079,552	45,368,363	26,548,973
Interest income	313,806	1,441,587	54,030
Net income attributable to VisionChina Media Inc. shareholders	9,393,358	46,809,950	26,603,003
Deemed dividend on convertible redeemable preferred shares	6,625,262		
Net income attributable to VisionChina Media Inc. common shareholders	\$ 2,768,096	\$ 46,809,950	\$ 26,603,003

F-44

---

**Table of Contents**

VISIONCHINA MEDIA INC.  
CONDENSED FINANCIAL INFORMATION OF REGISTRANT SCHEDULE I  
STATEMENTS OF CHANGES OF SHAREHOLDERS EQUITY AND COMPREHENSIVE INCOME  
(Amounts in U.S. Dollars ( \$ ), except number of shares)

	Common shares		Additional paid-in capital	Accumulated (deficit) profit	Accumulated other comprehensive income	Total shareholders equity	Comprehensive income
	Number	Amount					
Balance at January 1, 2007	22,000,000	\$ 2,200	\$ 6,136,689	\$ (5,557,223)	\$	\$ 581,666	
Initial public offering of common shares	13,500,000	1,350	100,438,650			100,440,000	
Direct offering expenses			(3,725,432)			(3,725,432)	
Conversion of redeemable preferred shares to common shares	32,139,088	3,214	60,106,814			60,110,028	
Exercise of share options	747,750	75	642,360			642,435	
Share-based compensation			221,362			221,362	
Cumulative translation adjustment					2,990,664	2,990,664	\$ 2,990,664
Net income				9,393,358		9,393,358	9,393,358
							\$ 12,384,022
Deemed dividend on convertible redeemable preferred shares				(6,625,262)		(6,625,262)	
Balance at December 31, 2007	68,386,838	\$ 6,839	\$ 163,820,443	\$ (2,789,127)	\$ 2,990,664	\$ 164,028,819	
Issuance of common shares pursuant to follow-on	1,150,000	115	17,569,585			17,569,700	

offering								
Direct offering expenses			(1,613,738)				(1,613,738)	
Shares repurchase	(281,400)	(28)	(1,454,628)				(1,454,656)	
Exercise of share options	2,525,893	252	10,906,004				10,906,256	
Restricted shares	38,111	4	(4)					
Share-based compensation			1,467,057				1,467,057	
Cumulative translation adjustment					7,359,826	7,359,826	\$ 7,359,826	
Net income				46,809,950		46,809,950	46,809,950	
								\$ 54,169,776
Balance at December 31, 2008	71,819,442	\$ 7,182	\$ 190,694,719	\$ 44,020,823	\$ 10,350,490	\$ 245,073,214		
Shares repurchase	(658,980)	(66)	(3,582,449)				(3,582,515)	
Exercise of share options	423,139	42	918,240				918,282	
Restricted shares	557,083	56	(56)					
Share-based compensation			4,332,111				4,332,111	
Cumulative translation adjustment					(362,739)	(362,739)	\$ (362,739)	
Net income				26,603,003		26,603,003	26,603,003	
								\$ 26,240,264
Balance at December 31, 2009	72,140,684	\$ 7,214	\$ 192,362,565	\$ 70,623,826	\$ 9,987,751	\$ 272,981,356		

**Table of Contents**

VISIONCHINA MEDIA INC.  
CONDENSED FINANCIAL INFORMATION OF REGISTRANT SCHEDULE I  
STATEMENTS OF CASH FLOWS

(Amounts in U.S. Dollars ( US\$ ), except number of shares)

	Year ended December 31,		
	2007	2008	2009
<b>Cash flows from operating activities:</b>			
Net income attributable to VisionChina Media Inc. shareholders	\$ 9,393,358	\$ 46,809,950	\$ 26,603,003
Adjustments to reconcile net income to net cash (used in) provided by operating activities:			
Depreciation		4,514	17,917
Equity in income of subsidiaries and variable interest entities	(9,426,329)	(48,252,862)	(32,260,524)
Share-based compensation	221,362	1,467,057	4,332,111
Changes in operating assets and liabilities:			
Prepaid expenses and other current assets	(277,627)	37,820	278,663
Amounts due from subsidiaries	(2,424,939)		(50,000,342)
Accrued expenses and other current liabilities	2,449,746	1,654,096	270,276
<b>Net cash (used in) provided by operating activities</b>	<b>(64,429)</b>	<b>1,720,575</b>	<b>(50,758,896)</b>
<b>Cash flows from investing activities:</b>			
Acquisition of fixed assets		(70,526)	(45,581)
Advances (to) from subsidiaries		(12,061,513)	6,157,970
Investments in subsidiaries	(37,000,000)	(59,999,997)	(1)
<b>Net cash (used in) provided by investing activities</b>	<b>(37,000,000)</b>	<b>(72,132,036)</b>	<b>6,112,388</b>
<b>Cash flows from financing activities:</b>			
Proceeds from issuance of common shares, net of issuance cost	99,230,318	13,708,984	
Proceeds from issuance of Series B convertible redeemable preferred shares, net of issuance cost	38,264,439		
Proceeds from exercise of share option, net of issuance cost	642,435	10,906,256	771,097
Payments of direct offering expenses			(278,902)
Share repurchases			(5,037,171)
<b>Net cash provided by (used in) financing activities</b>	<b>138,137,192</b>	<b>24,615,240</b>	<b>(4,544,976)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>101,072,763</b>	<b>(45,796,221)</b>	<b>(49,191,484)</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>876,378</b>	<b>101,949,141</b>	<b>56,152,920</b>

<b>Cash and cash equivalents at the end of the year</b>	<b>\$ 101,949,141</b>	<b>\$ 56,152,920</b>	<b>\$ 6,961,436</b>
---	-----------------------	----------------------	---------------------

Non-cash financing activity:

Share repurchase not yet settled

1,454,656

F-46

---



**Table of Contents**

VISIONCHINA MEDIA INC.  
CONDENSED FINANCIAL INFORMATION OF REGISTRANT SCHEDULE I  
(Amounts in U.S. Dollars ( US\$ ))

Schedule 1 has been provided pursuant to the requirements of Rules 12-04(a) and 4-08(e)(3) of SEC Regulation S-X, which require condensed financial information as to financial position, changes in financial position and results of operations of a parent company as of the same dates and for the same periods for which audited consolidated financial statements have been presented when the restricted net assets of consolidated and unconsolidated subsidiaries together exceed 25 percent of consolidated net assets as of the end of the most recently completed fiscal year. As of December 31, 2008 and 2009, approximately \$172,216,501 and \$205,369,450 of the registered capital and reserves are not available for distribution, respectively, and as such, the condensed financial information of VisionChina Media Inc. has been presented for the years ended December 31, 2007, 2008 and 2009.

**Basis of Presentation**

For the purposes of the presentation of the parent company only financial information, the Company records its investment in subsidiaries under the equity method of accounting as prescribed in FASB ASC 323 Investments in Equity Method and Joint Ventures (formerly Accounting Principles Board Opinions No. 18, The Equity Method of Accounting for Investments in Common Stock ). Such investment is presented on the balance sheet as Investment in subsidiaries and variable interest entities and 100% of the subsidiaries profit or loss as Equity in income of subsidiaries and variable interest entities on the statements of operations.

F-47