

VISIONCHINA MEDIA INC.
Form 20-F
May 30, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

(Mark One)

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

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2012

OR

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

For the transition period from _____ **to** _____

OR

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

Date of event requiring this shell company report

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Commission file number 001-33821

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

Cayman Islands
(Jurisdiction of incorporation or organization)

1/F Block No.7 Champs Elysees

Nongyuan Road, Futian District

Shenzhen 518040

People's Republic of China
(Address of principal executive offices)

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

At the address of the Company set forth above
(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

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

Title of each class	Name of each exchange on which registered
Common Shares, par value US\$0.0001 per share	Nasdaq Global Market*
American Depositary Shares, each representing 20 Common Shares	Nasdaq Global Market

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

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

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

101,366,544 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

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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

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

Unless otherwise indicated, references in this annual report to:

- ADSs refers to our American depositary shares, each of which represents 20 common shares; and ADRs refers to the American depositary receipts that may evidence our ADSs;
- China or the PRC refers to the People's Republic of China, excluding, for the purpose of this annual report only, Taiwan, Hong Kong and Macau; and
- local operating partners refers to the local television stations with which we established our direct investment entities or from which we buy advertising time, or the local mobile digital television operating companies with which we entered into exclusive agency agreements or from which we buy advertising time.

As of December 31, 2012, 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.

As of December 31, 2012, 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., 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 Beifang New Media Co., Ltd., Xiamen Radio and Television Digital Media Co., Ltd., Suzhou China Mobile Television Co., Ltd., Changzhou China Mobile Television Company Limited and Changsha Guangdian Digital Mobile Television Co., Ltd.

In 2012, the local mobile digital television operating companies from which we buy advertising time included Henan Cable China Mobile Television Company Limited.

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

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

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

This annual report includes our audited consolidated financial statements for the years ended December 31, 2010, 2011 and 2012 and as of December 31, 2011 and 2012.

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

Table of Contents**PART I****ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS**

Not Applicable.

ITEM 2. ITEM 2.OFFER STATISTICS AND EXPECTED TIMETABLE

Not Applicable.

ITEM 3. ITEM 3.KEY INFORMATION**A. Selected Financial Data**

The following selected condensed consolidated statement of operations data for the years ended December 31, 2010, 2011 and 2012 and the condensed consolidated balance sheet data as of December 31, 2011 and 2012 have been derived from our audited consolidated financial statements, which are included elsewhere in this annual report. The following selected condensed consolidated statement of operations data the years ended December 31, 2008 and 2009 and the condensed consolidated balance sheet data as of December 31, 2008, 2009 and 2010 have been derived from our audited 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.

	2008	2009	For the year ended December 31, 2010	2011	2012
	(US\$, except number of shares)				
Condensed Consolidated Statement of Operations Data:					
Revenues(1)					
Advertising service revenue	103,515,250	120,686,086	138,056,640	179,415,668	114,741,386
Advertising equipment revenue	565,392			1,778,682	926,464
Total revenues	104,080,642	120,686,086	138,056,640	181,194,350	115,667,850
Cost of revenues					
Advertising service cost	(40,602,022)	(61,104,381)	(121,000,454)	(127,057,954)	(121,374,431)
Advertising equipment cost	(475,432)			(1,494,027)	(345,291)

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Total cost of revenues	(41,077,454)	(61,104,381)	(121,000,454)	(128,551,981)	(121,719,722)
Gross profit/(loss)	63,003,188	59,581,705	17,056,186	52,642,369	(6,051,872)
Operating expenses (2)	(20,126,107)	(32,046,119)	(183,535,813)	(63,639,179)	(246,463,622)
Government grant		538,085			756,757
Share of (losses) profits from equity method investees	(484,969)	(998,606)	(109,989)	230,280	45,509
Dividend income				142,265	162,100
Income from partial disposal of interest of a subsidiary				175,903	
Operating profit (loss)	42,392,112	27,075,065	(166,589,616)	(10,448,362)	(251,551,128)
Interest income	3,480,212	1,860,017	2,082,605	1,711,117	696,292
Interest expense		(109,590)	(4,952,239)	(4,716,577)	(2,614,543)
Government grant	672,515				
Other (expenses) income	(38,491)	(1,278)		42,153	(605,958)
Net income (loss) before income taxes	46,506,348	28,824,214	(169,459,250)	(13,411,669)	(254,075,337)
Income tax benefit (expense)	212,325	(2,348,254)	18,202,289	793,415	7,547,421
Net income (loss)	46,718,673	26,475,960	(151,256,961)	(12,618,254)	(246,527,916)
Net loss (income) attributable to noncontrolling interest (3)	91,277	127,043	(81,261)	114,962	118,724
Net income (loss) attributable to VisionChina Media Inc. shareholders	46,809,950	26,603,003	(151,338,222)	(12,503,292)	(246,409,192)
Net income (loss) per common share:					
Basic	0.67	0.37	(1.83)	(0.12)	(2.43)
Diluted	0.65	0.37	(1.83)	(0.12)	(2.43)
Weighted average number of shares used in computation of net income (loss) per share:					
Basic	70,064,663	71,686,900	82,739,234	102,047,412	101,351,222
Diluted	72,404,916	72,676,438	82,739,234	102,047,412	101,351,222

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	2008	2009	For the year ended December 31, 2010 (US\$, except number of shares)	2011	2012
Share-based compensation expenses during the related periods included in:					
Cost of revenues	39,847	63,477	100,711	58,836	52,824
Selling and marketing expenses	1,163,623	3,698,329	432,632	447,767	394,719
General and administrative expenses	263,587	570,305	414,162	311,070	221,111

(1) The PRC government implemented a value-added tax reform pilot program, which replaced the business tax with value-added tax on selected sectors including the advertising sector, in Shanghai effective January 1, 2012, in Beijing effective September 1, 2012 and in Shenzhen effective November 1, 2012. The value-added tax rate applicable to the subsidiaries and consolidated variable interest entities of our group in Shanghai, Beijing and Shenzhen is 6% as compared to the 5% business tax rate which was applicable prior to the reform.

(2) Included in operating expenses for the year ended December 31, 2010 and 2012 was a non-cash impairment loss of US\$145.7 million and US\$178.8 million made against the intangible assets and goodwill relating to our acquisitions of three out of the six advertising agency businesses in 2008 and our acquisition of Digital Media Group Company Limited (Digital Media Group) in 2010. More details of such impairment loss can be found on page 61 Item 5. Operating and financial review and prospects A Operating results Results of Operations Year Ended December 31, 2011 Compared to Year Ended December 31, 2010 .

(3) We adopted Financial Accounting Standards Board, or FASB, Accounting Standards Codification, or ASC, Topic 810-10-65, *Transition Related to FASB Statement No. 160, Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51*, or ASC 810-10-65, on January 1, 2009 retrospectively.

	2008	2009	As of December 31, 2010 (US\$, except number of shares)	2011	2012
Condensed Consolidated Balance Sheet Data:					
Cash and cash equivalents	163,248,286	68,834,087	67,211,336	80,309,629	29,012,381
Total asset	293,639,567	388,915,736	442,959,951	415,140,682	149,795,319
Total current liabilities	42,304,706	102,935,518	185,514,939	120,961,630	108,805,722
Net assets	245,634,615	273,415,714	215,252,534	283,401,981	40,012,946
Common shares	7,182	7,214	8,490	10,131	10,137
Total VisionChina Media Inc. shareholders equity	245,073,214	272,981,356	214,785,004	283,184,369	39,914,058
Number of common shares issued and outstanding	71,819,442	72,140,684	84,894,888	101,313,015	101,366,544

Note: We adopted ASC 810-10-65 (formerly FASB Statement No. 160, *Noncontrolling Interests*) on January 1, 2009, retrospectively.

	2010	As of December 31, 2011	2012
Selected Operating Data:			

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Number of digital television displays in our mobile digital television advertising network:

Exclusive agency cities	121,588	111,856	87,473
Direct investment cities	1,784	1,573	1,571
Total	123,372	113,429	89,044
Number of digital displays in our supplemental subway advertising platform	14,023	23,994	19,523

	For the Year Ended December 31,		
	2010	2011	2012
Total hours of broadcasting(1)	195,366	175,598	162,917
Average revenue per hour(1)(2)(US\$)	677	1,002	667
Average advertising minutes sold per hour	6.75	8.78	6.53

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

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

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, 2012, which was RMB6.2301 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.

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The following table sets forth information concerning exchange rates between the RMB and the U.S. dollar for the periods indicated. These rates are provided solely for your convenience and are not necessarily the exchange rates that we used in this annual report or will use in the preparation of our periodic reports or any other information to be provided to you. The exchange rate of RMB per US dollar as set forth in the H.10 statistical release of the Federal Reserve Board was RMB6.1311 to US\$1.00 as of May 24, 2013.

Period	Period End	Exchange Rate (Renminbi per US Dollar)(1)		
		Average(2)	Low	High
(RMB per US\$1.00)				
2008	6.8225	6.9193	7.2946	6.7800
2009	6.8259	6.8295	6.8470	6.8176
2010	6.6000	6.7603	6.8330	6.6000
2011	6.2939	6.4475	6.6364	6.2939
2012	6.2301	6.2990	6.3879	6.2221
November	6.2265	6.2338	6.2454	6.2221
December	6.2301	6.2328	6.2502	6.2251
2013				
January	6.2186	6.2215	6.2303	6.2134
February	6.2213	6.2323	6.2438	6.2213
March	6.2108	6.2154	6.2246	6.2105
April	6.1647	6.1861	6.1647	6.2078
May (through May 24)	6.1311	6.1446	6.1306	6.1665

(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

We incurred recurring loss and experienced negative cash flow of operations; these conditions raise substantial doubt as to our ability to continue as a going concern.

The following factors raise substantial doubt about our ability to continue as a going concern for the foreseeable future.

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- For the years ended December 31, 2012 and 2011, we incurred net loss of US\$246.5 million and US\$12.6 million, respectively.
- During the year ended December 31, 2012, we experienced negative cash flow of operations of US\$27.2 million.
- As of December 31, 2012, we had an overdue consideration payable of US\$64.0 million in relation to the acquisition of Digital Media Group which is currently the subject of litigation with the Former Digital Media Group shareholders. In August 2012 the Supreme Court of the State of New York (the New York Court) ordered us to transfer US\$60 million into New York State to be held in the custody of the New York City Sheriff's Office or into an escrow account controlled by the New York City Sheriff. US\$4.5 million that were held by us outside the China was transferred to the New York City Sheriff accordingly as of December 31, 2012. We were not able to transfer the remaining balance of US\$55.5 million as ordered by the New York Court as we had cash and cash equivalents of US\$29.0 million only as of December 31, 2012, most of which were held by our subsidiaries or consolidated variable interest entities in China and moreover we had not been able to obtain approval from the relevant authority in China to transfer assets or cash held by us in China to satisfy the transfer order of the New York Court.

This uncertainty may create additional concerns for our creditors, suppliers, customers and other counterparties, which may make it more difficult for us to conduct our business and meet our debt and other obligations. Moreover, our consolidated financial statements do not include any adjustments that might result from the outcome of that uncertainty; and the adjustments could be substantial.

Due to the current and on-going deteriorating advertising industry market conditions in China and overall global economic slowdown, we have scaled back certain of our businesses. The significant uncertainties regarding the final result of the litigation with the former shareholders of Digital Media Group and the sustainability of the China advertising industry in the current macroeconomic environment are likely to continue to adversely impact demand for our service. In order to mitigate the above factors, we have the following plans and actions:

- We have taken or are in the process of taking a number of initiatives to reduce costs and improve working capital management. We have been negotiating with a number of vendors, including vendors of concession right contracts, for them to provide us with lower prices or more favorable payment terms in order to achieve cost savings. We have decided to postpone a substantial portion of its planned capital expenditures for the next twelve months. In addition, we have implemented measures to more closely monitor the collection of receivable balances with an aim to improving liquidity.
- We have successfully negotiated with certain banks and will continue to negotiate with other banks to obtain revolving bank facilities to ensure our bank borrowings can be renewed on an on-going basis. From January 1, 2013 to May 29, 2013, we had obtained additional secured short-term bank borrowings of US\$24.2 million with interest rates of 160% of the People's Bank of China Benchmark rate (Benchmark Rate). We are currently seeking secured credit facilities from other PRC financial institutes of approximately US\$48.0 million which we can utilize for working capital purpose in the next twelve-month period.
- We have performed a review of its cash flow forecast for the twelve months ending December 31, 2013. We believe that its operating cash flow will improve in 2013. While management believes the forecast is based on reasonable assumptions, significant assumptions include revenue growth rate of 9%.

We have formulated a liquidity plan as summarized under Item 5. Operating and Financial Review and Prospects A. Operating Results Key Factors Affecting Our Results of Operations Ability to seek additional financing for our operations and to execute our liquidity plan. We cannot

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assure you that we will be able to successfully execute such liquidity plan. The amount of liquidity that we may need may be greater than currently anticipated as a result of additional factors and events beyond our control, such as protracted global economic slowdown, continued downturn in the China advertising market, potential financial crises globally or in any region where we conduct a significant portion of our business, unfavorable result of the litigation with former shareholders of Digital Media Group. All of these and other factors and occurrences may increase our cash requirements and make us unable to satisfy our liquidity requirements, and we may, as a result, be unable to continue as a going concern.

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The prolonged 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 prolonged 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. The current European debt crisis and related financial restructuring efforts, including in Greece, Italy, Spain, Portugal and Ireland, are contributing to instability in global financial markets, which adversely affects consumer confidence, the cost of borrowing and economic activity. 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.

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, 2006, 2010, 2011 and 2012, we incurred a net loss of US\$0.4 million, US\$4.1 million, US\$151.3 million, US\$12.6 million and US\$246.5 million, respectively. We pay media costs, the components of which are detailed in Item 5A Operating Results Cost of Revenues Advertising Service Cost Media Costs, to our local operating partners for operating our advertising business on buses and subways. These costs constitute a significant portion of our cost of revenues and accounted for approximately 70.8%, 56.9% and 83.9% of our total revenues in the years ended December 31, 2010, 2011 and 2012, respectively. As of December 31, 2012, in respect of the exclusive agency agreements for our bus platforms, eight were entered into with our direct investment entities and seven were entered into with independent local operating partners. In respect of the exclusive agency agreements for our subway platforms, one agreement was entered into with one of our direct investment entities and all other agreements were

entered into with independent local operating partners across eight cities in the PRC. Our exclusive agency agreements typically have terms ranging from three to ten years, and do not contain any renewal provisions. Upon expiration of the exclusive agency agreements, we will discuss renewal of the agreements with our local operating partners, and the detailed terms of the new exclusive agency agreements will be negotiated at that time. The exclusive agency agreements cannot be terminated before expiration of the term unless agreed by both parties, and the party who initiates the early termination is subject to penalty at an amount specified in the respective agreement. Our media costs each year from these agreements is fixed and is determined upfront at the time when the contracts were signed. We negotiate each of our exclusive agency agreements with our local operating partners on a case-by-case basis and determine the amount of the media cost for each year under the agreement through the process of negotiation. All of our exclusive agency agreements contain escalation clauses to increase the media cost at pre-determined fixed amounts each year under the agreements, except for (i) two exclusive agency agreements that in aggregate accounted for less than 5% of our media cost and (ii) one exclusive agency agreement that has a fixed media cost for the first six years with an annual increase in the media cost beginning in the seventh year. However, our revenues may fluctuate significantly from period to period as a result of, among others, seasonality, customer loyalty, competition and changes in regulations. If our revenues decrease in a given period, we may be unable to reduce our cost of revenues as a significant portion of our cost of revenues is fixed, which could materially and adversely affect our results of operations and result in a net loss in the period.

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We impaired our goodwill or other amortizable intangible assets in 2012 which adversely affected our financial condition and results of operations.

We are required under U.S. GAAP to review our amortizable intangible assets 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. As of December 31, 2012, we had already written down all of our goodwill and amortizable intangible assets acquired during the acquisition of six advertising agency businesses in 2008 and Digital Media Group in 2010. These impairment charges have had a material adverse effect on our business and results of operations. See Item 5. Operating and Financial Review and Prospects Operating Results Critical Accounting Policies Goodwill and Intangible Assets .

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.

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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 Beifang New 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 April 30, 2013. In aggregate, approximately 59.8% of our advertising service revenue in 2012 was 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. 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

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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.

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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. All of our local operating partners are affiliates or subsidiaries of state-owned television stations operating under SARFT, and the senior management of the state-owned television stations consists of appointed government officials. The competent government authority grants state-owned television stations the authority to review and approve the broadcasting advertisements. These state-owned television stations have confirmed that advertisements can be broadcast on mobile digital television without being classified as outdoor advertising. We and each of our local operating partners do not believe that advertising activity on public transportation constitutes outdoor advertising and therefore do not believe that registration with the SAIC is necessary. None of our local operating partners or direct investment entities has renewed or completed the outdoor advertising registration, and as of December 31, 2012, none of our local operating partners or direct investment entities was required by the local SAIC to apply for such registration or was fined or penalized for failing to complete such registration. Furthermore, none of our local operating partners expect the SAIC to levy any fines or sanctions in the future. Our local operating partners have expressed to us their willingness to fully comply with all relevant rules and regulations, including registering with the SAIC, and we therefore believe our local operating partners will be able to apply for the appropriate registrations in the event that the SAIC or the competent government authority determines that such registrations are required. As a precaution to cope with such legal uncertainty, our direct investment entities in Haerbin and Zhengzhou had completed the required registrations, but these registrations have already expired in 2008. Currently, our local operating partners have advised us that they do not believe such registrations are necessary, and none of our local operating partners are planning to submit registration applications to the SAIC. If advertising on public transportation systems or other out-of-home locations is determined by a local SAIC branch to be outdoor advertising 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.

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We may encounter cyber attacks, which may result in material adverse effect on our business operation, financial condition and reputation.

If the security of the broadcasting network we use to send our signals is breached despite the efforts of our local operating partners to ensure the security of the content management system, and unauthorized images, text or audio sounds are 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 cyber attack incidents may disrupt our services and result in significant damages and material adverse effect on our operations. In addition, we may suffer negative consequences, such as litigation, monetary liabilities, increased cybersecurity protection costs, lost revenues and reputational damages. 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 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 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. All of our local operating partners are affiliates or subsidiaries of state-owned television stations operating under SARFT, and the senior management of the state-owned television stations consists of appointed government officials. The competent government authority grants state-owned television stations the authority to review and approve the broadcasting advertisements. These state-owned television stations have confirmed that advertisements can be broadcast on mobile digital television without being classified as outdoor advertising. We and each of our local operating partners do not believe that advertising activity on public transportation constitutes outdoor advertising and therefore do not believe that registration with the SAIC is necessary. All of the existing SAIC registrations by our local operating partners have already expired in 2008. As a result, 100% of our revenues in 2010, 2011, and 2012 were derived from cities where our local operating partners do not have an advertising registration certificate from the SAIC. Therefore, all of our revenues would be impacted in case of a regulatory enforcement action by SAIC. None of our local operating partners or direct investment entities has renewed or completed the outdoor advertising registration, and as of December 31, 2012, none of our local operating partners or direct investment entities was required by the local SAIC to apply for such registration or was fined or penalized for failing to complete such registration. Furthermore, none of our local operating partners expect the SAIC to levy any fines or sanctions in the future. Our exclusive agency agreements with each of our local operating partners or our joint venture agreements with our local operating partners require them to comply with all relevant laws and regulations, which include obtaining any approvals necessary to legally provide advertising time to us. Our local operating partners have expressed to us their willingness to fully comply with all relevant PRC rules and regulations during our conversations with them. Although no written assurances have been provided, our local operating partners have orally expressed their willingness to register with the SAIC in the event that the SAIC or the competent government authority determines that such registrations are required. If advertising on public transportation systems or other out-of-home locations is determined by a local SAIC branch to be outdoor advertising, it will take SAIC as long as seven working days to review and approve an outdoor advertising registration after its acceptance of application filed by our local operating partner or direct investment entity. And if 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 up to RMB 30,000, confiscation of advertising fees and may be ordered to stop disseminating the advertisements. As a result, our business in that city would be materially and adversely affected, which may have a material and adverse effect on our overall business.

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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 Measures of Administration of Advertisement Broadcasting of Radio and Television in 2009 that became effective on January 1, 2010. 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 12 minutes each hour. On average, we sold 6.75, 8.78 and 6.53 advertising minutes per broadcasting hour for the years ended December 31, 2010, 2011 and 2012, respectively. However, there is some uncertainty because as of December 31, 2012, there have been no SARFT actions, pronouncements of guidance 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, nor have there been any plans for future action. In this sense, our future revenues could be significantly impacted by an enforcement action by SARFT for the above regulation on the mobile digital television industry. 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 May 29, 2013, SARFT has not indicated that this regulation shall apply to mobile digital television. In addition, all of our local operating partners are affiliates or subsidiaries of state-owned television stations operating under SARFT, and the senior management of the state-owned television stations consists of appointed government officials. The competent government authority grants state-owned television stations the authority to review and approve the broadcasting advertisements. These state-owned television stations have orally confirmed that the foregoing restrictions on the total advertising time of a radio or television station or channel advertisements are not applicable to advertising on mobile digital television when we entered into media contracts with them. 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. Even though our PRC legal counsel has advised that under the relevant PRC laws and regulations, we are able to enforce these media contracts against our state-owned local operating partners and there is no limitation on the enforceability of these media contracts, if any of the foregoing regulatory enforcement actions occurs, the total advertising time on our network will be limited. As the annual increase of our media costs is already fixed under our media contracts and the contracts do not contain any provisions to decrease the media costs in the event that the total advertising time on the network of local operating partners is limited, a regulatory limitation on the number of advertising minutes would limit our potential revenues, while our media costs continue to increase. Our business, advertising service revenue and operating results could therefore 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, 2012, we provided advertising services mainly through our network and supplemental subway advertising platform with approximately 108,567 digital displays in 19 cities in China, among which we have entered into exclusive advertising agency arrangements in 18 cities and direct investment arrangements in 11 cities in China. Also, as of March 31, 2013, our mobile digital television advertising network and supplemental subway advertising platform covered 19 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.

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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 10 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. Seven out of ten of our direct investment agreements provide that we have the right to appoint the general manager of the direct investment entity, who will be in charge of the day-to-day operations of the direct investment entity. The right to appoint the general manager is subject to confirmation by the direct investment entity. Our local operating partners, the local television stations including Chengdu Television Station, Shenzhen Media Group, Jilin Television Station, Dalian Television Station, Henan Cable Television Network Group Co., Ltd., Hubei Broadcast and Television General Station, Wuxi Broadcast and Television Group, Suzhou Broadcast and Television General Station, Changzhou Television Station and Ningbo Broadcast and Television Group, control the broadcasting and are responsible for compliance matters. We cannot assure you that disputes will not arise between us and our local operating partners, and that any such disputes will be resolved in our favor. Further, our interests and the interests of our local operating partners may be different. In some cases, we may have to rely on court proceedings to resolve the disputes between us and our local operating partners. Any litigation will divert our resources and may result in a judgment against us. If any dispute between us and our local operating partners arises, our business operations could be harmed, and our financial condition and results of operations could be materially and adversely affected.

Our failure or our local operating partners' failure to maintain existing relationships or develop new relationships with local bus companies or subway companies would harm our business and prospects.

In most of the cities where we operate, our business relationships with local bus companies or other selected operations are secured and provided by our local operating partners or our direct investment entities. Furthermore, as of December 31, 2012, our operations on the supplemental subway advertising platform in Guangzhou, Beijing, Tianjin, Chongqing, Nanjing and Shenzhen are secured by our agreements with the subway companies in these six 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. Our PRC counsel advises that while SARFT has promulgated the foregoing timeline for conversion

to the National Standard, as of December 31, 2012, SARFT has not assessed any fines or penalties related to non-compliance with the National Standard. As of April 30, 2013, 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 Beifang New Media Co., Ltd., Xiamen Radio and Television Digital Media Co., Ltd., Suzhou China Mobile Television Co., Ltd., Shenzhen Mobile Television Co., Ltd., Guangzhou Pearl River Mobile Multimedia Television Co., Ltd., and Changzhou China Mobile Television Company Limited) have been converted to the National Standard, but those in another six cities (Beijing Beiguang Media Mobile Television Co., Ltd., Beijing Beiguang Metro Media Co., Ltd., Nanjing Guangdian Mobile Television Development Co., Ltd., Changsha Guangdian Digital Mobile Television Co., Ltd., Shanxi Dazhong Mobile Television 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. As of April 30, 2013, except for in Beijing, our local operating partners in the seven cities have not begun the conversion process, and we and our local operating partners estimate that the conversion process will take no more than two years to complete once the conversion process begins. The actual amount of time required for the conversion process in any given city depends on a number of factors, including the size of the mobile digital television network in that city, the equipment currently used, the resources available for the conversion and the schedule for replacing the equipment. 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., Nanjing Guangdian Mobile Television Development Co., Ltd., Changsha Guangdian Digital Mobile Television Co., Ltd. and Shanxi Dazhong Mobile Television Co., Ltd., will be required to spend significant capital and other resources, including purchasing new equipment, to convert their digital television broadcasting infrastructure to the National Standard. Three of our local operating partners, Beijing Beiguang Media Mobile Television Co., Ltd., and Beijing Beiguang Metro Media Co., Ltd., told us the conversion process had been started as of April 9, 2012. Under our exclusive advertising agency agreements, we are responsible for a portion of such expenditures in five of the eight remaining cities. The total cost of converting the equipment to the National Standard in these four cities, namely Beijing, Nanjing, Changchun and Zhengzhou, is not expected to exceed RMB10.0 million. However, we and our local operating partners have not yet determined the allocation of the conversion expenses. 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.

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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. These supplemental subway advertising operations transmit programming through closed video networks rather than digital broadcast technology and include Beijing (Line 4 and Daxing Line), Tianjin, Shenzhen (Lines 2, 4 and 5, and Stations in Line 1), Nanjing (Line 2 and the southern extended line for Line 1) and Chongqing.

We intend to obtain the required approvals for our non-advertising content 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 part or all of the non-advertising content from programming transmitted through closed circuit networks on our supplemental subway platforms. As a result, we may not be able to capture the attention of our target audience due to the lack of non-advertising content, which could make our advertising network on these supplemental subway platforms less attractive, and consequently have an adverse effect on our business and prospects.

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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.

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

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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.

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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 32.9% of our total revenues for the year ended December 31, 2012. 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.

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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 the four major cities in China: Beijing, Shanghai, Guangzhou and Shenzhen. Our revenues in Beijing, Guangzhou and Shenzhen in the aggregate accounted for 63.1% and 62.9% of our total advertising service revenue in 2008, and 2009, respectively. Following the completion of our acquisition of Digital Media Group, we expanded our network to the subway platform in Shanghai and additional subway lines in Beijing and Shenzhen, and these four major cities in the aggregate accounted for 65.8%, 72.4% and 67.0% of our total advertising service revenue in 2010, 2011 and 2012, respectively. 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., Guangzhou Pearl River Mobile Multimedia Television Co., Ltd., Guangzhou Metro Television Co., Ltd. and Shenzhen Metro Co., Ltd.), our business, financial condition and results of operations would be materially and adversely affected.

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

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

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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.

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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.

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, 2012, we had 434 dedicated sales and marketing personnel and 4 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.

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

We may need additional cash resources due to changed business conditions, 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, including exposure to contingent acquisition consideration, which may adversely affect our results of operations and financial condition.

One of our strategies is to pursue acquisition opportunities which are complementary to our business. However, we cannot assure you that we will be able to identify and secure suitable acquisition opportunities. Our ability to 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.

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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 the acquisitions of the six 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 the years from 2008 through 2010. See Item 5. Operating and Financial Review and Prospects B. Liquidity and Capital Resources Investing Activities for more details regarding the consideration calculated based on performance targets. In addition, among the total consideration of US\$160.0 million for our acquisition of Digital Media Group, US\$60.0 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 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 and trademarks are critical to our success. The success of our business depends in part upon our continued ability to use our brand and trademarks to increase 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.

Monitoring and preventing the unauthorized use of our intellectual property is difficult. The measures we take to protect our brand and trademarks 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 and trademarks, 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.

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

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

We have limited insurance coverage 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 fixed assets, including our equipment and office furniture, the cost of insuring for these risks, and the difficulties associated with acquiring such insurance on commercially reasonable terms make it impractical for us to 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 fixed assets, or litigation or business disruption may result in the incurrence of substantial costs and the diversion of resources, which could have an adverse effect on our operating results.

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

Based on our financial statements, relevant market data and the composition of our income and valuation of our assets, including goodwill, we do not believe that we were a passive foreign investment company for 2012, 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,

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- 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 if we are a PFIC in the taxable year in which such dividends are paid or in the preceding taxable year.

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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 value (determined on a quarterly average) 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 2013 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.

We are currently involved in litigation against the selling shareholders of Digital Media Group, and in connection with this litigation, we recorded contingent loss of US\$9.4 million as of December 31, 2012 based on our management's current assessment of the possible outcome of this pending litigation. 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. Our litigation with the selling shareholders of Digital Media Group is detailed in Item 3. Key information D. Risk Factors Risks Related to Our Corporate Structure

Our ongoing litigation with the former shareholders of Digital Media Group may have a material adverse effect on our business and results of operations.

Risks Related to Our Corporate Structure

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

The PRC government requires any foreign entities that invest in the advertising services industry to have at least two years of direct operations in the advertising industry outside of China. We have not directly operated any advertising business outside of China and therefore, we currently do not qualify under PRC regulations to 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, is currently ineligible to apply for the required licenses to directly provide advertising services in China. CDTC is an intermediate holding company that consolidates the operating results generated by our consolidated affiliated entities in a manner that complies with PRC rules and regulations. It is authorized to engage in businesses such as, but not limited to, technical development and technical consultancy services in connection with digital visual and audio equipment. Our advertising business is currently provided 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 Company Limited, or VisionChina Media Group, is currently owned by Limin Li and Yanqing Liang. We do not have any equity interest in VisionChina Media Group but we receive 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 Qijun Men and Haifeng Wang. 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.

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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.

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.

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We rely on contractual arrangements with our consolidated affiliated entities in China, and their equity holders, 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 equity holders.

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 equity holders 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 equity holders 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 equity holders 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. Pursuant to the terms of each of (i) the technology and management services agreement entered into on February 15, 2007 between CDTC and VisionChina Media Group, (ii) the domain name license agreement entered into on February 15, 2007 between CDTC and VisionChina Media Group, (iii) the cooperation agreement entered into on February 22, 2005 between Beijing Eastlong Technology and Beijing Eastlong Advertising and (iv) each of the respective loan agreements, equity pledge agreement and option agreements to which CDTC and Beijing Eastlong Technology, respectively, is party, if CDTC or Beijing Eastlong Technology, as applicable, breaches its representations or warranties or any of the terms of the agreement, then the nondefaulting party, i.e., the relevant consolidated affiliated entity or the shareholders of the relevant consolidated affiliated entity, as applicable, would have the right to terminate the agreement. VisionChina Media Group and Beijing Eastlong Advertising, however, do not have any substantive kick-out rights available to them under any of the contractual arrangements. 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, Beijing Eastlong Advertising and Their Respective Subsidiaries. If our consolidated affiliated entities or all or part of their assets become subject to liens or rights of third-party creditors, we may 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 equity holders or unrelated third-party creditors may claim rights to some or all of the assets of that consolidated affiliated entity, thereby hindering our ability to operate our business 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.

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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 or Beijing Eastlong Advertising 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 and Beijing Eastlong Advertising, both PRC legal entities. VisionChina Media Group was established by our co-founders, and Beijing Eastlong Advertising was established by Haifeng Wang and Qiujun Men. 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. Similarly, the paid-in capital of Beijing Eastlong Advertising was funded by Beijing Eastlong Technology, which became our wholly owned subsidiary subsequent to our acquisition of Digital Media Group in 2010, through loans extended to its equity holders. Beijing Eastlong Technology Development Co., Ltd., or Beijing Eastlong Technology has entered into certain exclusive agreements with Beijing Eastlong Advertising, which obligate us to absorb a majority of the risk of loss from Beijing Eastlong Advertising's activities and entitle us to receive a majority of its residual returns. In addition, Beijing Eastlong Technology has entered into certain agreements with the two individual equity holders, including a loan agreement for the paid-in capital of Beijing Eastlong Advertising described above and an option agreement to acquire the equity interest in Beijing Eastlong Advertising when permitted by the PRC laws and a share pledge agreement for the shares in Beijing Eastlong Advertising held by Qijun Men and Haifeng Wang. 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. According to the Civil Procedure Laws of the PRC, each party to a dispute in its first trial is entitled to appeal within the statutory time limit, and the court shall hear all appeals once the case is filed in the second instance. Before the appeal is heard, the people's court of the first trial shall serve copies of the appeal petition on the respondent within five days of receiving an appeal petition, and the respondent shall submit its defense in writing within 15 days of receiving such copies of the appeal petition. Failure by the respondent to submit a defense shall not prevent the case from being tried by the people's court. In trying an appealed case against a judgment, the people's court shall make a final judgment within three months of the case being filed in the second instance; in trying an appealed case against an order, the people's court shall make a final order within 30 days of the case being filed in the second instance. See Item 7. Major Shareholders and Related Party Transactions B. Related Party Transactions for a detailed description of these contractual arrangements.

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

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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 19 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. Further, the contractual arrangements enable us to exercise effective control over Beijing Eastlong Advertising and its subsidiaries and receive substantially all of the economic benefits of Beijing Eastlong Advertising and its subsidiaries for a remaining period of 2.2 years. If Beijing Eastlong Advertising 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.

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 equity holders 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 ongoing litigation with the former shareholders of Digital Media Group may have a material adverse effect on our business and results of operations.

Our Company and its wholly owned subsidiary, Vision Best Limited, filed a summons with notice in the New York Court on December 27, 2010 against the selling shareholders and former management of Digital Media Group. The summons with notice alleged that the selling shareholders of Digital Media Group (i) engaged in an unlawful scheme to induce us, through false, deceptive, and misleading statements concerning Digital Media Group's financial condition and performance, to pay a grossly inflated price to purchase Digital Media Group in 2010, and (ii) received, or are scheduled to receive, ill-gotten gains from this unlawful scheme. The summons with notice further alleged that we are owed indemnification from an escrow fund, established at the time of the purchase, as a result of breaches of representations and warranties contained in the merger agreement pursuant to which we acquired Digital Media Group (the Merger Agreement). The claims summarized in the summons with notice were set forth in a more detailed complaint we filed on February 2, 2011.

On February 25, 2011, Gobi Partners, Inc., Gobi Fund, Inc., Gobi Fund II, L.P., Oak Investment Partners XII, L.P., and Thomas Gai Tei Tsao (collectively, the Former Digital Media Group Shareholders) filed a countersuit in the New York Court against us. The complaint in that lawsuit alleges that we breached certain agreements related to the Digital Media Group acquisition by (i) declining to make certain installment payments that the Former Digital Media Group Shareholders claim they were entitled to receive and (ii) declining to take steps to facilitate the transfer of shares of our stock that the Former Digital Media Group Shareholders claim to be entitled to receive in connection with the acquisition of Digital Media Group. The Former Digital Media Group Shareholders also seek specific enforcement of the contracts at issue, compensatory damages in an amount to be determined at trial, and permanent and preliminary injunctive relief compelling us to comply with the parties' agreement. We denied the material allegations of the complaint by the Former Digital Media Group Shareholders and asserted a counterclaim for breach of

contract arising from the destruction of Digital Media Group's electronic data prior to delivery to us.

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Also on February 25, 2011 the Former Digital Media Group Shareholders filed motions against us for various relief. They sought to dismiss most of the claims in our complaint as well as our counterclaim based on destruction of Digital Media Group's electronic data. They also sought (i) an order of attachment against us in the amount of \$30 million plus interest, on account of a post-closing payment of that amount which the Former Digital Media Group Shareholders alleged to be due, and (ii) an order directing us to transfer assets into the United States to secure a prospective judgment. The Former Digital Media Group Shareholders also filed a motion for a preliminary injunction to compel us to remove the restrictive legend on the ordinary shares received by the Former Digital Media Group Shareholders in connection with the acquisition of Digital Media Group, and to provide consents or authorizations to convert those shares into freely tradable American Depository Shares.

On November 3, 2011 the New York Court decided the pending motions in the above lawsuits. It granted the motion to dismiss our fraud, unjust enrichment and declaratory judgment claims, as well as our breach of contract claim based on the destruction of Digital Media Group's electronic data. The New York Court denied the Former Digital Media Group Shareholders' motion to dismiss our indemnification claim for not less than US\$2,785,633 but granted their motion to attach our assets in the amount of US\$30.0 million plus interest, as security in the event the Former Digital Media Group Shareholders were successful in their monetary claims against us. The ruling also required the Former Digital Media Group Shareholders to file a US\$500,000 undertaking in the event that it is ultimately determined that they were not entitled to the attachment. Finally, the New York Court denied the Former Digital Media Group Shareholders' request to compel us to release the restrictions on the stock certificates they received, noting that any injury they may have suffered as a result of the alleged failure to release those restrictions would be compensable in monetary damages.

On November 11, 2011 we filed an appeal from the New York Court's orders.

On November 21, 2011 the Former Digital Media Group Shareholders filed a motion for partial summary judgment in the New York Court, seeking a judgment against us of US\$60.0 million plus interest for failure to make US\$60.0 million in post-closing payments claimed to be due for the acquisition of Digital Media Group. They also filed a motion to confirm the order of attachment previously entered in the amount of US\$30.0 million plus interest. No decision has been reached by the New York Court on these pending motions as of April 26, 2012.

On August 13, 2012, the New York State Supreme Court entered an order, or the August 13 Order, directing us and Vision Best Limited, on or before August 21, 2012 to (a) transfer US\$60.0 million in assets readily convertible into U.S. currency into New York State, to be held in the custody of the New York City Sheriff's Office, (b) deposit US\$60.0 million into an escrow account controlled by the Sheriff, or (c) make other arrangements satisfactory to the Former Digital Media Group Shareholders in the litigation for security with respect to the final judgment in that amount. We and Vision Best Limited took prompt steps to comply with the August 13 Order and have arranged for the delivery to the Sheriff of more than US\$3.2 million in cash denominated in or convertible to U.S. dollars that were held by or for us or our subsidiaries outside the PRC. With respect to funds held within the PRC in Renminbi, any transfer to the Sheriff in New York requires approval of the relevant authority of the PRC government, the SAFE. Accordingly, on August 20, 2012, the Company applied to the SAFE for such approval, for the transfer of the balance required under the August 13 Order (an amount equivalent to approximately US\$56.8 million). However, the SAFE denied the application on August 20, 2012.

At same time as taking steps to comply with the August 13 Order to the extent possible, we have also appealed the August 13 Order. We sought a stay of enforcement of the August 13 Order, but that request was denied, first by a single judge of the appellate court on August 17, 2012 and then by a full panel of that court on October 2, 2012. We have perfected the appeal from the August 13 Order.

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On October 21, 2012, Former Digital Media Group Shareholders filed a contempt motion in the New York Court against us and Vision Best for failure to transfer US\$60 million into New York State by August 21, 2012 as directed in the August 13 Order.

On January 7, 2013, the New York Court issued an order of civil contempt against us that we had failed to comply fully with an August 13, 2012 turnover order requiring us to post security in connection with prejudgment orders of attachment totaling US\$60 million. The turnover order required us to pay that amount to the New York City Sheriff or enter into an escrow of the funds in the People's Republic of China or alternative security arrangement acceptable to plaintiffs. Although we arranged to transfer to the Sheriff most of the assets of its subsidiaries located outside the PRC (almost US\$4.5 million), we had advised the judge that it was not able to transfer additional assets held by its PRC subsidiary because of restrictions of the PRC's State Administration of Foreign Exchange (the SAFE).

On February 19, 2013 the New York State Supreme Court entered a modified order (the February 19 Order), adding to the terms of the August 13 Order the alternative provision that we may deposit in escrow, with the Jun He Law Offices as escrow agent, an amount of Chinese currency equivalent to US\$60 million less the amount currently on deposit of approximately US\$4.5 million with the New York City Sheriff's Office, to be held in escrow until a final judgment in this action or a settlement between the parties resolving the action. However, the Jun He Law Offices have informed the New York Court that they were not willing to serve as escrow agent and the Company had been advised that any escrow of funds to be held in China pursuant to an agreement that contemplates the possibility of ultimate transfer of Chinese currency outside of China requires approval of SAFE. The contempt sanction was a fine of US\$250 plus payment of the plaintiffs' attorneys' fees incurred on the contempt application. The plaintiffs' attorneys' fee was estimated to be US\$282,000 and such amount is fully accrued as of December 31, 2012 and included in accrued expenses and other current liabilities (however, as explained below, the amount actually awarded was US\$185,892.31 in plaintiff's attorney's fee in addition to a US\$250 fine, a total of US\$186,142.31). We filed a notice of appeal from that Contempt Order on March 15, 2013.

On May 16, 2013, the New York Court ordered us to pay Former Digital Media Group Shareholders US\$250 fine plus plaintiffs' costs and reasonable attorneys' fees in the amount of US\$185,892.31 within fifteen days. We will also continue to vigorously pursue its appeal to revive its affirmative claims against Gobi Partners and Oak Investment Partners for fraud and other relief. However we are unable to predict the ultimate outcome of the matter. We note that our exposure includes the following possible outcomes:

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(a) the Former Digital Media Group Shareholders might obtain a judgment in the amount of US\$60.0 million plus interest;

(b) the Former Digital Media Group Shareholders might be successful in obtaining (i) an order requiring us to release the restrictive legend on the stock that the Former Digital Media Group Shareholders received in consideration for the acquisition of Digital Media Group or (ii) damages arising out of the failure to remove the restriction;

(c) we might not succeed in recovering on our claim with respect to the indemnity escrow (in which we seek US\$2,785,633), and the Former Digital Media Group Shareholders might succeed in compelling the escrow to be turned over to them; and

Although we continue to claim in the pending litigation in the New York Court, and expect to appeal, that no further consideration should be paid to the Former Digital Media Group Shareholders, the consideration provided for in the Merger Agreement has been fully provided for in the consolidated financial statements. In addition, accrued interest of US\$9,368,145 on the unpaid but challenged post-closing consideration of US\$60.0 million provided for in the Merger Agreement has been recorded and included in accrued expenses and other current liabilities. We have made these provisions because we consider that, unless we succeed on appeal, payment of such amounts is probable based on the November 3, 2011 order of the New York Court. We estimate that the further potential loss that could result from this litigation may be as much as US\$67 million as of date of this annual report, but we consider such potential loss merely possible but not probable due to uncertainty. The litigation is still in progress as of May 29, 2013.

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

Our independent registered public accounting firm that issues the audit report included in our annual report filed with the SEC, as auditors of companies that are traded publicly in the United States and a firm registered with the Public Company Accounting Oversight Board, or the PCAOB, is required by the laws in the United States to undergo regular inspections by the PCAOB to assess its compliance with the laws in the United States and professional standards. However, because we have substantial operations within the PRC, the PCAOB is currently unable to conduct inspections of the work of our auditors as it relates to those operations without the approval of the Chinese authorities. As a result, our auditors are not currently inspected fully by the PCAOB.

Inspections of other firms that the PCAOB has conducted outside the PRC have identified deficiencies in those firms' audit procedures and quality control procedures, which may be addressed as part of the inspection process to improve future audit quality. This lack of PCAOB inspections in the PRC prevents the PCAOB from regularly evaluating our auditor's audits and its quality control procedures. As a result, investors may be deprived of the benefits of PCAOB inspections.

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

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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 equity holders 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 equity holders, 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 operating results 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.

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

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Risks Related to Doing Business in China

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

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

- the degree of government involvement;

- the level of development;

- the growth rate;

- the control of foreign exchange;

- access to financing; and

- the allocation of resources.

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

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's attention.

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

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

PRC regulation of loans 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 subsidiaries and consolidated affiliated entities, or we may make additional capital contributions to our PRC subsidiaries. Any loans to our PRC subsidiaries 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 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.

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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. According to the Regulations on the Foreign Exchange System of the PRC, we or our PRC optionees may be assessed fines of up to RMB300,000 and legal or administrative sanctions for failure to comply with the provisions of the foreign exchange register administration. Our PRC counsel has advised that failure to comply with SAFE registration requirements by some of our PRC optionees would not have a material adverse effect on our business or results of operations.

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 equity holders. As part of these arrangements, VisionChina Media Group, Beijing Eastlong Advertising and their subsidiaries hold some of the assets that are important to the operation of our business. If any of these entities becomes bankrupt and all or part of their assets become subject to liens or rights of third-party creditors, we may be unable to continue some or all of our business activities, which could materially and adversely affect our business, financial condition and results of operations. If any of our consolidated affiliated entities or any of their subsidiaries undergoes a voluntary or involuntary liquidation proceeding, their shareholders or unrelated third-party creditors may claim rights to some or all of their assets, thereby hindering our ability to operate our business, which could materially and adversely affect our business, our ability to generate revenues and the market price of our ADSs.

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

The PRC government imposes controls on the convertibility of the Renminbi into foreign currencies and, in certain cases, the remittance of currency out of China. We receive all our revenues in Renminbi. Under our current corporate structure, our future cash requirements will be primarily satisfied by dividend payments from our PRC subsidiaries. Shortages in the availability of foreign currency may restrict the ability of our PRC subsidiaries 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.

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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.

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.

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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%, and pursuant to the requirement of the EIT Law, continue to enjoy the lower rate and gradually transition to the new tax rate within five years from 2008 to 2012. VisionChina Media Group's sales branches located in various cities in the PRC are subject to enterprise income tax at standard rate of 25% under the EIT Law. Furthermore, in November 2008, VisionChina Media Group was recognized as a new and high technology enterprises strongly supported by the state and is entitled to a preferential tax rate of 15% for 2009 and 2010. In October 2011, VisionChina Media Group obtained the approval from the government authorities to be recognized as a state-encouraged high-new technology enterprise in 2011, 2012 and 2013, and is entitled to a preferential tax rate of 15% in these three years, subject to tax authority approval at the end of each year. In accordance with a circular issued in December 2010, Beijing Eastlong Technology has been recognized as a state-encouraged high-new technology enterprise starting from 2010, and the status is valid for a period of three years. As such the EIT rate for Beijing Eastlong Technology is 15% in each of the years of 2010, 2011 and 2012, respectively. Furthermore, one of our operating consolidated affiliated entities 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 and reduced tax rate of 7.5%, 7.5% and 12.5% in 2010, 2011 and 2012. Notwithstanding the standard statutory tax rate of 25%, in 2011, under the direction of the relevant in-charge tax authority, one of our operating consolidated affiliated entities, Jiangxi Huashi Media Advertising Co., Ltd., or Jiangxi Huashi, applied a deemed-profit-rate method for its annual tax filings in 2011. Pursuant to the deemed-profit-rate method, taxable income for Jiangxi Huashi was deemed at 16% of revenues. An additional amount of US\$0.4 million would otherwise have been payable if deemed-profit-rate method is not allowed for the year ended December 31, 2012. 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.

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 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.

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Also, on April 22, 2009, the State Administration of Tax (SAT) issued a Tax Circular, *Guoshuifa [2009] No. 82, Notice on the Recognition of Overseas Incorporated Domestically Controlled Enterprises as PRC Resident Enterprises Based on the Place of Effective Management Criteria*, or Circular 82, with retrospective effect from 1 January 2008. According to Circular 82, any enterprise established under the law of a country or region other than the PRC but whose main investor is a PRC enterprise or Group shall be recognized as a resident enterprise for PRC tax purposes if all the following criteria are met: (i) the senior executives responsible for its daily production or business operations and the place where such responsibilities are carried out are mainly located in China; (ii) decisions about its finances (such as borrowing, lending, financing and managing financial risk) and human resources (such as staff recruitment, termination, and remuneration policies) are made or approved by organizations or individuals located in China; (iii) its major properties, accounting books and records, company seal, board minutes and resolutions, shareholders meeting minutes, etc. are kept in China; and (iv) 50% or more of its voting directors or its senior executives habitually reside in China. The principle of substance over form applies when determining the place of effective management. Although Circular 82 was issued to regulate the PRC tax resident judgment of companies established overseas and controlled by PRC companies, which is not applicable in our case, the criteria in Circular 82 should be used as a reference to the SAT's view on this issue.

Our board of directors holds regular meetings and makes most of the significant operational, investment, financing and human resources decisions outside of the PRC. In addition, our senior management regularly spends time outside of the PRC developing and managing investor relations. As such, we believe that 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 results of operations.

For the year ended December 31, 2010, 2011 and 2012, our legal entities organized outside of the PRC incurred losses. Therefore, even if our legal entities organized outside of the PRC are treated as PRC residents for purpose of the new EIT law, our management believes there was no material impact on our 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.

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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. 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.

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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;

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- 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.

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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, 2012, we had 101,366,544 common shares outstanding, including 63,790,365 common shares represented by 3,189,518 ADSs. Sales of our common shares or ADSs held by our significant shareholders or any other shareholder, or the availability of these securities for future sale, may have a negative effect on the market price of our ADSs.

In addition, certain of our shareholders or their transferees and assignees have the right to cause us to register the sale of their shares under the Securities Act upon the occurrence of certain 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.

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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.

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;

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- 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.

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

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

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

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

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

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.

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

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

We purchased all of the outstanding equity interests 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.

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

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 should 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, or the Initial Conversion Price, and (B) 80% of the average of the closing sales prices for one ADS as reported on the Nasdaq Global Market for the twenty consecutive trading days ending (and including) two day prior to the payment date. The third installment of US\$30 million should 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. The second and third installments totaling US\$60 million remain unpaid as of April 26, 2012 as a result of our lawsuit against the selling shareholders of Digital Media Group.

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

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

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

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

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Due to PRC regulatory restrictions on foreign investments in the advertising and mobile digital television industries, we operate our advertising business in China through VisionChina Media Group and Beijing Eastlong Advertising. While we do not have any equity interests in the operating entities in China, our relationships with VisionChina Media Group, Beijing Eastlong Advertising and their respective equity holders are governed by a series of contractual arrangements that allow us to effectively control and derive economic benefits from both VisionChina Media Group and Beijing Eastlong Advertising (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, Beijing Eastlong Advertising and Their Respective Subsidiaries on pages 98 and 99). Accordingly, we treat VisionChina Media Group and Beijing Eastlong Advertising as variable interest entities and have consolidated their historical financial results in our financial statements in accordance with U.S. GAAP. All our revenues are derived from VisionChina Media Group for the year ended December 31, 2009. After we completed the acquisition of Digital Media Group in January 2010, Beijing Eastlong Advertising became our consolidated variable interest entity, and substantially all our revenues for the years ended December 31, 2010 and 2011 are derived from VisionChina Media Group and Beijing Eastlong Advertising. Our assets and those of our subsidiaries mainly include cash, accounts receivables, plant and equipment, intangible assets, investment in consolidated variable interest entities and investments under cost method. The revenues generated by us and our subsidiaries, apart from revenues earned in respect of the relevant contractual arrangements to which CDTC and Beijing Eastlong Advertising are parties, are primarily derived from (1) sales of Passenger Information and Direction Systems, which display information about the subway trains and advertising, to various subway companies in the PRC; (2) sales of equipment used for mobile digital television systems on mass transit systems; and (3) advertising revenue on advertising platforms located outside of the PRC. In the fiscal years ended December 31, 2010, 2011 and 2012, we and our subsidiaries (excluding operations that are subject to involvement with the consolidated affiliated entities) contributed in aggregate approximately 0.5%, 1.7% and 0.7%, respectively, of our total consolidated net revenues derived from third parties and non-consolidated affiliates. As of December 31, 2010, 2011 and 2012, we and our subsidiaries accounted for an aggregate of 34.3%, 19.8% and 20.4%, respectively, of our total assets (excluding for the purpose of this calculation assets that are subject to involvement with the consolidated affiliated entities).

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

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

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

Principal Capital Expenditures

We had capital expenditures of US\$3.6 million, US\$2.3 million and US\$1.8 million for the years ended December 31, 2010, 2011 and 2012, respectively. 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 five years. As of December 31, 2012, the estimated average remaining useful life of our digital television displays is approximately 1.8 years. We believe our

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existing digital television displays, with cost value of US\$12.3 million as of December 31, 2012, 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 2013. Our capital expenditures are primarily funded by proceeds from issuance of our common shares and proceeds from bank loans for the years ended December 31, 2010, 2011 and 2012. We expect our capital expenditures in 2013 to primarily consist of purchases of digital television displays and related equipment as we continue to expand our mobile digital television advertising network and in preparation of replacing our digital television displays. 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.

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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 and subway platforms 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 Beijing, Chongqing, Guangzhou, Nanjing, Shenzhen and Tianjin. As of December 31, 2012, our network and supplemental subway advertising platform covered 19 cities in China and consisted of approximately 108,567 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. According to the public announcements released by subway companies and local governments, we expect there will be 69 new subway lines commencing operation in 24 cities throughout the PRC during 2010 to 2014.

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.

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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, 2012, we use the following business models for our advertising operations in China:

- **Exclusive agency model** refers to our arrangements, with terms ranging up to 12 years, in 18 cities: Beijing, Changchun, Changsha, Changzhou, Chengdu, Chongqing, Dalian, Guangzhou, 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 10 cities, namely Beijing, Changchun, Changsha, Chengdu, Guangzhou, Nanjing, Ningbo, Shenyang, Taiyuan and Wuhan, that typically give 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 Changzhou, Dalian, Suzhou, Wuxi and Xiamen that give us the exclusive right to sell a portion of the advertising time do not include sales of advertising time to local advertisers within each respective city. For our supplemental subway advertising operations, we have also entered into exclusive advertising agency agreements with the partner subway authority or partner local mobile digital television company in subway trains and platforms in Beijing, Chongqing, Guangzhou, Nanjing, Shenzhen and Tianjin.
- **Direct investment model** refers to our arrangements in 10 cities, among which we and a partner local television station, or its affiliate, have formed a jointly-owned mobile digital television operating company in which we hold a noncontrolling equity interest, as well as our arrangement in one city, among which we and a partner local subway authority, or its affiliate, have formed a joint-owned subway television operating company in which we hold a noncontrolling equity interest. We refer to these jointly-owned mobile digital television operating companies as direct investment entities in this annual report. This model gives us the opportunity to work in conjunction with the local television station to provide programs to meet the demands of our audience and advertising clients. In the majority of our direct investment cities, such as Changchun, Changzhou, Chengdu, Chongqing, Dalian, Ningbo, Suzhou, Wuhan and Wuxi, we have also entered into an exclusive agency agreement with our direct investment entities to secure the exclusive right to sell advertising time on that network. For the cities where we have not entered into an exclusive agency agreement, we purchase advertising time at commercial prices from our direct investment entities and resell them to our advertising clients.
- **Outreach agency model** refers to our operations in other cities where we purchase advertising time from an existing mobile digital television company or other advertising service providers outside of our network, either directly or through an agent at the request of our clients. This model works in conjunction with our network arrangements to extend the reach of our advertising operations to cover substantially all of the major advertising markets in China.

Through December 31, 2012, 1,152 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, Yihai Kerry, Yum! and Unilever in aggregate accounted for approximately 14.4% of our advertising service revenue for the year ended December 31, 2012. We believe the appeal and effectiveness of our advertising network is largely evidenced by the number of advertisers who place repeated and multiple advertising campaigns on our network. We generated advertising service revenue of US\$114.7 million in 2012, US\$179.4 million in 2011 and US\$138.1 million in 2010, respectively. We incurred net loss attributable to our shareholders of US\$246.4 million in 2012, US\$12.5

million in 2011 and US\$151.3 million in 2010, respectively. The net loss attributable to our shareholders in 2012 and 2010 was primarily due to non-cash impairment charges totaling US\$178.8 million and US\$145.7 million we recorded in 2012 and 2010, respectively, as a result of the write-off of goodwill and intangible assets in connection with three out of six advertising agency businesses we acquired in 2008 and Digital Media Group we acquired in January 2010.

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Our Advertising Network

As of March 31, 2013, our network and supplemental subway advertising platform covered 19 cities in China. The following map and tables illustrate the geographic scope of our mobile digital television advertising network and supplemental subway advertising platform as of March 31, 2013:

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Our Mobile Digital Television Advertising Network Cities	Exclusive Agency	Direct Investment
Beijing Bus	√	
Beijing (four subway lines)(1)	√	
Changchun	√	√
Changsha(2)	√	
Changzhou(3)	√	√
Chengdu	√	√
Dalian(4)	√	√
Guangzhou	√	
Nanjing	√	
Nanjing (subway Line 1)(5)	√	
Ningbo	√	√
Shenyang	√	
Suzhou(6)	√	√
Taiyuan	√	
Wuhan	√	√
Wuxi(7)	√	√
Xiamen(8)	√	
Zhengzhou		√

(1) Our exclusive agency arrangements in the Beijing subway give us the exclusive right to sell all the advertising time on the mobile digital television network in seven lines of the Beijing subway (Line 1, Line 2, Line 13 and the Batong Line) from August 1, 2010 to July 31, 2015. We have terminated the exclusive agreement for Line 5, Line 10 and the Olympic Line of the Beijing Subway from April 1, 2012.

(2) Our exclusive agency agreements 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, 2015.

(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 Dalian 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 Dalian from November 1, 2012 to October 30, 2015.

(5) Our exclusive agency arrangement in the Nanjing subway Line 1, 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 Suzhou gives us the exclusive right to sell a portion of the advertising time on Suzhou's mobile digital television network, excluding sales of advertising time to advertisers from Suzhou.

(7) Our exclusive agency arrangement in 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.

(8) Our exclusive agency agreements 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, 2015, to non-Xiamen based national advertisers.

Our exclusive agency arrangement in Shanghai Subway, which was acquired through our acquisition of Digital Media Group, gave us the exclusive right to sell all of the advertising time on the mobile digital television network in 13 Lines of the Shanghai subway from January 2, 2010 to December 31, 2013. We terminated the exclusive agency agreement in Shanghai for 13 lines from September 1, 2012.

Our Supplemental Subway Advertising Platform Cities	Exclusive Agency	Direct Investment
Beijing (subway Line 4)(1)	√	
Beijing (subway Daxing Line)(2)	√	
Chongqing(3)	√	√
Guangzhou(4)	√	
Shenzhen (subway Line 4)(5)	√	
Shenzhen (three subway lines)(6)	√	
Tianjin(7)	√	
Nanjing (Line 2 and southern extended line of Line 1)(8)	√	

(1) Our exclusive agency arrangement in Beijing Subway Line 4 gives us the exclusive right to sell all of the advertising time on the television platform in subway Lines 4 of the Beijing subway.

(2) Our exclusive agency arrangement in Beijing Subway Daxing Line gives us the exclusive right to sell all of the advertising time on the television platform in subway Daxing Line of the Beijing subway.

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

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(4) Our exclusive agency arrangements give us the exclusive right with respect to the digital displays on the subway platforms and in the subway trains in Guangzhou and large digital displays located in the subway stations in Guangzhou. In April 2011, we renewed the exclusive agency arrangement in Guangzhou subway for a five-year term effective from May 1, 2011 and expanded our coverage to all of 8 subway lines in Guangzhou.

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

(6) In March 2011, we signed an exclusive agency arrangement with Shenzhen subway, which gives us the exclusive right to sell all the advertising time in subway platforms in Line 1, and in subway platforms and subway trains in Line 2 and Line 5 from July 1, 2011 to June 30, 2016. We had the exclusive right to sell all the advertising time in subway platforms in Line 1 from June 1, 2007 up to June 30, 2011 from former exclusive agency arrangement.

(7) Our exclusive agency arrangements in Tianjin 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.

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

We terminated the exclusive agency agreement for the television platform in the Kowloon Through Train from August 2011. We did not choose to renew the exclusive agency arrangement for the Airport Express Line from July 1, 2011.

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, 2012. 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, 2012, our mobile digital television advertising network and supplemental subway advertising platform consisted of approximately 108,567 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 and Supplemental Subway Platforms

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

Our Exclusive Agency Cities

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As of December 31, 2012, we operated our advertising network under the exclusive agency model in 15 cities: Beijing, Changchun, Changsha, Changzhou, Chengdu, Dalian, Guangzhou, Nanjing, Ningbo, Shenyang, Suzhou, Taiyuan, Wuhan, Wuxi and Xiamen.

We entered into exclusive agency agreements with Beijing Beiguang Media Mobile Television Co., Ltd. on October 13, 2006 for a term of ten years and seven months and with Guangzhou Zhujiang Mobile Multimedia Information Co., Ltd. on July 26, 2007 for a term of eight years.

Through our acquisition of Digital Media Group which was completed in January 2010, we obtained exclusive agency rights for the mobile digital television networks in the subway trains and subway platforms in Nanjing subway line 1 and Shanghai, and subway trains in Shenzhen s subway line 1. 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 (Line 4), Hong Kong, Tianjin, Chongqing and Nanjing (Line 2 and southern extended line of Line 1). In 2012, we terminated the exclusive agreements for (i) the subway trains and subway platforms in Shanghai, (ii) subway trains in Shenzhen s subway Line 1, and (iii) the Airport Express Line and Kowloon Through Train Line in Hong Kong.

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Under our exclusive agency model, we enter into an exclusive agreement with the local mobile digital television company or the partner subway authority to become the exclusive advertising agent for that network. Our exclusive agency arrangements in Changzhou, Dalian, 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 Changzhou, Dalian, Suzhou, Wuxi and Xiamen, respectively.

For our supplemental subway advertising operations, as of December 31, 2012, we have also entered into exclusive agency agreements with the partner subway authority or partner local mobile digital television company in subway trains and platforms in Beijing, Chongqing, Guangzhou, Nanjing, Shenzhen and Tianjin. Our advertising network and supplemental subway advertising platform operating under the exclusive agency model in Beijing, Shanghai, Guangzhou and Shenzhen in aggregate accounted for approximately 67.0% of our advertising service revenue for the year ended December 31, 2012.

As of December 31, 2012, according to the typical terms of the exclusive agency agreements:

- We typically pay a pre-determined media cost each year to the mobile digital television company to receive the exclusive right to place advertisements on that network.
- We have the responsibility to invest in new digital television displays and install the displays in new buses in Beijing, Guangzhou and Nanjing. For our supplemental subway advertising operations acquired in connection with our acquisition of Digital Media Group, we have the responsibility to install displays in the subway trains and platforms in Beijing (Line 4), Chongqing, and Tianjin, as well as displays in the subway trains of Nanjing Line 2 and southern extended line of Line 1, 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.

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 media cost each year guarantees our local partner a steady stream of income, and our ability to place advertisements from local, national

and international clients may enhance the prestige and public perception of the local mobile digital television network. In addition, we generally work closely with our local partner in the operation of the network and may provide suggestions regarding the programming on the network.

Our Direct Investment Cities

As of December 31, 2012, we operated our mobile digital television advertising network under the direct investment model in 10 cities: Changchun, Changzhou, Chengdu, Dalian, Ningbo, Shenzhen, Suzhou, Wuhan, Wuxi and Zhengzhou. In these 10 cities, 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 Changchun, Dalian, Suzhou, 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. Other than the arrangement in our direct investment entities in Shenzhen and Wuxi, the remaining nine direct investment agreements usually contain the following provisions:

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- We appoint 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.

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

We have entered into an exclusive agency agreements with our direct investment entities in Changchun, Chengdu, Ningbo and Wuhan to control all of the advertising time on the mobile digital television network operated by such entities in those cities. These exclusive agency agreements with our direct investment entities usually contain the same terms in all material respects as the exclusive agency agreements that we sign with independent local mobile digital television operating companies. However, our exclusive agency arrangements with our direct investment entities in Changzhou, Dalian, Suzhou, and Wuxi that give us the exclusive right to sell a portion of the advertising time on these cities' mobile digital television networks does not include sales of advertising time to advertisers from Changzhou, Dalian, 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

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ranging from four years to eight years. Under these arrangements, we realize all of the advertising revenues and pay a pre-determined media cost to the direct investment entity. Under this type of contract, the direct investment entity effectively transfers the operational risk to us and enjoys a guaranteed stream of revenues. We believe that the terms of these exclusive agency agreements were negotiated on an arm's length basis. See Item 7. Major Shareholders and Related Party Transactions B. Related Party Transactions Exclusive Agency Agreements with our Direct Investment Entities .

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.

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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, 3,472 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, 2012. 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, 2012, we have placed advertisements in over 70 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, Yihai Kerry, Yum! and Unilever in aggregate accounted for approximately 14.4% of our advertising service revenue for the year ended December 31, 2012. 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, 2012:

Industry	% of total advertising service revenues
Food, Beverage, Restaurants, Wines and Spirits	34.5%
Pharmaceutical and Nutritional Supplements	14.0%
Household Products	10.4%
IT and Internet	6.5%
Fashion and Accessories	6.0%
Electronics and Digital Products	5.0%
Tourism	3.7%
Others	19.9%

Sales and Marketing

As of December 31, 2012, we employed an experienced advertising sales force of 434 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.

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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.

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.

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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.

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

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.

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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 one of the largest mobile digital television advertising networks using broadcasting technology. As a result, we face barriers-to-entry to expand our network to the bus platform in Shanghai. In addition, we will face barriers-to-entry to the extent 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.

Intellectual Property

Our intellectual property consists of our brand, trademarks and design patents related to some of the equipment. As of December 31, 2012, we held seven patents and copyrights issued in the PRC.

Insurance

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

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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.

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.

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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:

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- 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.

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.

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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 Qijun Men and Haifeng Wang. 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.

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.

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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 years 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, was subject to an enterprise income tax rate of 15% for 2009 and 2010. In addition, VisionChina Media Group obtained the approval from the government authority in October 2011 to be recognized as a state-encouraged high-new technology enterprise and is therefore entitled to a preferential tax rate of 15% for a three-year period from 2011 to 2013, subject to tax authority approval at the end of each year. In accordance with a circular issued in December 2010, Beijing Eastlong Technology has been recognized as a state-encouraged high-new technology enterprise starting from 2010, and the status is valid for a period of three years. As such the EIT rate for Beijing Eastlong Technology is 15% in each of the year of 2010, 2011 and 2012, respectively. One of our operating consolidated affiliated entities 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, and reduced tax rate of 7.5% for the years ended December 31, 2010, 2011 and 2012. Notwithstanding the standard statutory tax rate of 25%, in 2011, under the direction of the relevant in-charge tax authority, one of our operating consolidated affiliated entities, Jiangxi Huashi, applied a deemed-profit-rate method for its annual tax filings in 2011. Pursuant to the deemed-profit-rate method, taxable income for Jiangxi Huashi was deemed at 16% of revenues. An additional amount of US\$0.4 million would otherwise have been payable if deemed-profit-rate method is not allowed for the year ended December 31, 2012.

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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.

The PRC government implemented a value-added tax reform pilot program, which replaced the business tax with value-added tax on selected sectors including the advertising sector, in Shanghai effective January 1, 2012, in Beijing effective September 1, 2012 and in Shenzhen effective November 1, 2012. The value-added tax rate applicable to the subsidiaries and consolidated variable interest entities of our group in Shanghai, Beijing and Shenzhen is 6% as compared to the 5% business tax rate which was applicable prior to the reform.

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.

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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

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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, 2013.

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D. Property, Plant and Equipment

Our principal executive offices are located at our headquarters comprising approximately 1,780 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 Affiliated Companies of Limin Li 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.

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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.

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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.

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, 2012, our mobile digital television advertising network consists primarily of our digital television displays installed on buses and subways. As of December 31, 2012, our mobile digital television advertising network and supplemental subway advertising platform covered 19 cities in China and consisted of approximately 108,567 digital displays. As of March 31, 2013, our mobile digital television advertising network and supplemental subway advertising platform covered 19 cities in China. 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:

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

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As our advertising service revenue constitutes a significant portion of our revenues, we focus on factors that directly affect our advertising service revenue 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 revenue per hour metric, which we calculate by dividing the advertising service revenue 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 9 employees as of December 31, 2012 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\$138.1 million, US\$181.2 million and US\$115.7 million for the years ended December 31, 2010, 2011 and 2012, respectively. We generate revenues from the sales of advertising time both on our mobile digital television advertising network and on our supplemental subway advertising platform. We principally derive our advertising service revenue from sales of advertising time between the programs, and we also have generated revenues from sales of our digital television displays to our local operating partners, which we refer to as our advertising equipment revenue. The following table sets forth a breakdown of our total revenues for the periods indicated.

	2010		For the Year Ended December 31, 2011		2012	
	US\$	% of total revenues	US\$	% of total revenues	US\$	% of total revenues
Revenues:						
Advertising Service revenue	138,056,640	100.0	179,415,668	99.0	114,741,386	99.2
Advertising Equipment Revenue			1,778,682	1.0	926,464	0.8
Total	138,056,640	100.0	181,194,350	100.0	115,667,850	100.0

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Advertising Service Revenue

We derive the majority of our advertising service revenue 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 revenue 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 46.7%, 54.6% and 52.3% of our advertising service revenue in 2010, 2011 and 2012. Our advertising service revenue accounted for 100.0%, 99.0% and 99.2% of our total revenues for the years ended December 31, 2010, 2011 and 2012, respectively.

Our advertising service revenue is 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 revenue will continue to be the primary source of our revenues for the foreseeable future.

The PRC government implemented a value-added tax reform pilot program, which replaced the business tax with value-added tax on selected sectors including the advertising sector, in Shanghai effective January 1, 2012, in Beijing effective September 1, 2012 and in Shenzhen effective November 1, 2012. The value-added tax rate applicable to the subsidiaries and consolidated variable interest entities of our group in Shanghai, Beijing and Shenzhen is 6% as compared to the 5% business tax rate which was applicable prior to the reform.

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.

Even though we believe that the regulation regarding registration with the SAIC for outdoor advertisements and the regulation issued by the SARFT restricting advertising time do not apply to us, substantially all of our revenues would be impacted if the SAIC or SARFT determine that such regulations apply to us and impose regulatory sanctions on us. For example, none of our local operating partners are currently registered with the SAIC, so substantially all of our revenues could be affected if the SAIC determines that registration was necessary and decides to take regulatory actions. While we currently sell approximately 10% of total broadcasting time each day, if the SARFT determines that the 20% regulatory limitation on the number of advertising minutes applies to us, our business and results of operations could be materially and adversely affected as it would limit our potential revenues, while our media costs would continue to increase. See Item 3. Key Information D. Risk Factors

Risks Relating to Our Company and Our Industry 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.

Factors that Affect Our Advertising Service Revenue

- **Advertising Time.** The total advertising time available across all of our cities determines our total capacity and affects our advertising service revenue. 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 revenue. 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.

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- **Actual Price of Advertising Time.** The price that we actually charge our clients for our advertising time directly affects our advertising service revenue. 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 revenue.
- **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 revenue. 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 Revenue

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We derived a portion of our total revenues from the sales of digital television displays or passenger information and direction system, or PIDS, to certain of our local operating partners, including our direct investment entities. We record these revenues as advertising equipment revenue. 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 local operating partners. Our advertising equipment revenue represented nil, 1.0% and 0.8% of our total revenues for the years ended December 31, 2010, 2011 and 2012, 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 revenue excluding the VAT payments. We expect that advertising equipment revenue in future periods will not constitute a significant portion of our total revenues because we expect our advertising service revenue to grow faster than our advertising equipment revenue.

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We recognize advertising equipment revenue upon delivery of the equipment when the risk of ownership has passed to our local operating partners and when we have fulfilled all the performance obligations under the arrangement (such as post-delivery support and training).

Factors that Affect Our Advertising Equipment Revenue

Addition of New Local Operating Partners. The addition of new local operating partners directly affects our advertising equipment revenue. We only sell our digital television displays or PIDS to our local operating partners for installation into of the city's mass transportation system and other locations. We anticipate higher sales of our digital television displays or PIDS in the earlier stages of our local operating partners operations during the expansion of the mobile digital television network in those cities. Accordingly, as the operations of our local operating partners reach a greater scale, we expect the sales of our digital television displays to decrease.

Network Expansion of Local Operating Partners. The pace of network expansion at each of our local operating partners directly affects our advertising equipment revenue. Any expansion of the mobile digital television network or the supplemental subway advertising platforms could generate advertising equipment revenue for us. In addition, our local operating partners, including direct investment entities, will need to purchase new equipment from us to replace their worn or obsolete equipment.

Cost of Equipment. Since we sell our digital television displays or PIDS at the total costs that are incurred for the equipment (including procurement, installation and post-delivery supporting costs) plus a fixed percentage markup, any changes to the cost of our equipment will directly affect our advertising equipment revenue.

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.

	2010		For the Year Ended December 31, 2011		2012	
	US\$	% of total revenues	US\$	% of total revenues	US\$	% of total revenues
Total Revenues	138,056,640	100.0	181,194,350	100.0	115,667,850	100.0
Cost of revenues:						
Advertising service cost	121,000,454	87.6	127,057,954	70.1	121,374,431	104.9
Advertising equipment cost			1,494,027	0.8	345,291	0.3
Total cost of revenues	121,000,454	87.6	128,551,981	70.9	121,719,722	105.2
Gross profit (loss)	17,056,186	12.4	52,642,369	29.1	(6,501,872)	(5.2)

Advertising Service Cost

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

Media Costs. Our media costs represented the largest component of our cost of revenues and accounted for approximately 70.8%, 56.9% and 83.9% of our total revenues for the years ended December 31, 2010, 2011 and 2012, respectively. Our media costs primarily consist of:

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- payments to our exclusive agency partner companies under our contractual arrangements to purchase the advertising time on that network;
- 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 media cost 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 media cost 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 2.5%, 2.2% and 3.5% of our total revenues for the years ended December 31, 2010, 2011 and 2012, respectively. Our depreciation expense only consists of depreciation for the displays directly owned by us but 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 expense 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 2.3%, 4.0% and 2.9% of our total revenues for years ended December 31, 2010, 2011 and 2012, respectively. Business taxes and surcharges generally include the 5% business tax and 3% surcharges that our PRC operating subsidiary must pay for revenues generated from advertising services provided in China after deduction of allowable media costs. The government implemented a value-added tax reform pilot program, which replaced the business tax with value-added tax on selected sectors including the advertising sector, in Shanghai effective January 1, 2012, in Beijing effective September 1, 2012 and in Shenzhen effective November 1, 2012. The value-added tax rate applicable to the subsidiaries and variable interest entities of our group in Shanghai, Beijing and Shenzhen is 6% as compared to the 5% business tax rate which was applicable prior to the reform.

Amortization of Intangible Assets. In connection with our acquisition of Digital Media Group in January 2010, we recorded the concession contracts acquired from Digital Media Group as intangible assets. The cost of these intangible assets was measured at the estimated fair value of the concession contracts of US\$90.9 million on the acquisition date, and is amortized over its expected useful life of nine years using straight line method. The amortization of such intangible assets is recorded within advertising service cost and accounted for 7.4%, 2.9% and 2.4% of our total revenues for the years ended December 31, 2010, 2011 and 2012, respectively.

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 cost for advertising content production. Other operating costs accounted for 4.7%, 4.1% and 12.2% of our total revenues for the years ended December 31, 2010, 2011 and 2012, respectively. Increase in other operating cost in 2012 was primarily due to increase in content production cost for tailor made programs for certain advertisers. 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.

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Advertising Equipment Cost

Our advertising equipment cost consists of the amounts we pay to our third-party suppliers for the digital television displays or the related equipment for PIDS that we sell to our local operating partners, as well as the related installation cost and post-delivery supporting cost. Our advertising equipment cost accounted for nil, 1.0% and 0.8% of our total revenues for the years ended December 31, 2010, 2011 and 2012, respectively. The major factors affecting our advertising equipment cost include the number of digital television displays or PIDS we sell and the unit cost that we pay for the assembly of each equipment.

Other Factors Affecting Our Results of Operation

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 2010, the Renminbi appreciated against the U.S. dollar by approximately 3.3% and in 2011, the Renminbi appreciated against the U.S. dollar by approximately 4.6% and in 2012, the Renminbi appreciated against the U.S. dollar by approximately 0.8%. The appreciation of the Renminbi against the U.S. dollar contributed to the increase in our net loss reported in U.S. dollar terms in 2010 and 2011, and the depreciation of the Renminbi against the U.S. dollar contributed to the decrease in our net income reported in U.S. dollar terms in 2009. 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.

Ability to seek additional financing for our operations and to execute our liquidity plan

The following factors raise substantial doubt about our ability to continue as a going concern for the foreseeable future.

- For the year ended December 31, 2012 and 2011, we incurred net loss of US\$246,527,916 and US\$12,618,254, respectively.
- During the year ended December 31, 2012, we experienced negative cash flow of operations of US\$27,190,937.
- As of December 31, 2012, we had an overdue consideration payable of US\$64.0 million in relation to the acquisition of Digital Media Group which is currently the subject of litigation with the Former Digital Media Group Shareholders. In August 2012 the New York Court ordered us to transfer US\$60.0 million into New York State to be held in the custody of the New York City Sheriff's Office or into an escrow account controlled by the New York City Sheriff. US\$4.5 million that were held by us outside the China was transferred to the New York City Sheriff accordingly as of December 31, 2012. We were not able to transfer the remaining balance of US\$55.5 million as ordered by the New York Court as we had cash and cash equivalents of US\$29.0 million only as of December 31, 2012, most of which were held by our subsidiaries or consolidated variable interest entities in China and moreover we had not been able to obtain approval from the relevant authority in China to transfer assets or cash held by us in China to satisfy the August 13 Order of the New York Court.

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In light of the deteriorating market conditions for the advertising industry in China and the potential result of litigation with former shareholders of Digital Media Group, it is critical for us to be able to access additional financing for our continuing operations and to execute our liquidity plan as more fully described in B. Liquidity and Capital Resources Working Capital Deficit in this annual report. If we fail to successfully execute this liquidity plan or if the plan fails to adequately satisfy our liquidity requirements as we expect, we may not be able to continue as a going concern.

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Our operating expenses consist of selling and marketing expenses, general and administrative expenses, and impairment loss on intangible assets and goodwill. 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.

	2010		For the Year Ended December 31, 2011		2012	
	US\$	% of total revenues	US\$	% of total revenues	US\$	% of total revenues
Total revenues	138,056,640	100.0	181,194,350	100.0	115,667,850	100.0
Gross profit/(loss)	17,056,186	12.4	52,642,369	29.1	(6,051,872)	(5.2)
Operating expenses						
Selling and marketing expenses	28,315,592	20.5	44,916,460	24.8	42,979,527	37.2
General and administrative expenses	9,499,717	6.9	13,207,064	7.3	18,676,539	16.2
Other operating expense			2,140,655	1.2		
Impairment loss on intangible assets and goodwill	145,720,504	105.5			178,814,411	154.6
Contingent loss in connection with a litigation			3,375,000	1.9	5,993,145	5.2
Total operating expenses	183,535,813	132.9	63,639,179	35.1	246,463,622	213.1

Selling and Marketing Expenses. 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 20.5%, 24.8% and 37.2% of our total revenues for the years ended December 31, 2010, 2011 and 2012, respectively. 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 to maintain strict cost control measures to control our sales and marketing expenses in the future. Our sales force had 434? employees as of December 31, 2012, compared to 530 employees as of December 31, 2011 and 585 employees as of December 31, 2010. We decreased the number of our sales and marketing employees because we optimized our sales and marketing procedures and activities.

General and Administrative Expenses. Our general and administrative expenses primarily consist of salaries and benefits for management, accounting and administrative personnel, office rentals, allowance for doubtful accounts receivable, depreciation of office equipment, professional service fees, maintenance, utilities and other office expenses. General and administrative expenses accounted for 6.9%, 7.3% and 16.1% of our total revenues for the years ended December 31, 2010, 2011 and 2012, 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.

Impairment Loss on Intangible Assets and Goodwill. We recorded impairment loss on our intangible assets and goodwill totaling US\$145.7 million in 2010 with details set out below:

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In the second quarter of 2010, we recorded impairment charge of US\$89.1 million against the goodwill and intangible assets for three out of the six advertising agency businesses, namely, Peak, Goldwhite and Ahead, which we acquired in 2008. Due to the change in relevant regulations in the PRC in 2010 (please see Item 4. Information on the Company B. Business Overview Regulation Regulations on the Advertising Industry Advertising content on pages 63 and 64 for the details of the Administrative Measures on Radio and Television Advertisement Broadcasting issued by the SARFT and effective from January 1, 2010), there was a significant decline in customer demand, intense pricing pressure and increasing competition of Peak, Goldwhite and Ahead reporting units which indicated the potential impairment loss on the goodwill and intangible assets of these reporting units. We therefore performed an impairment analysis for these reporting units in June 2010. Accordingly, we recorded impairment loss of US\$43.6 million, US\$16.7 million and US\$21.3 million against the goodwill allocated to the Peak, Goldwhite and Ahead reporting units, respectively, in the second quarter of 2010. In addition, we recorded impairment loss of US\$3.1 million, US\$1.4 million and US\$3.0 million against the intangible assets arising from the acquisitions of Peak, Goldwhite and Ahead, respectively. The remaining three acquired agencies are not subject to this impairment loss.

In December 2010, we recorded impairment charge of US\$56.6 million against the goodwill and intangible assets in connection with our acquisition of Digital Media Group, which was completed in 2010. When we performed annual impairment test for the Digital Media Group reporting unit in December 2010, we determined that the poorer than expected performance of the Digital Media Group reporting unit led to a potential impairment of the goodwill and intangible assets in connection with our acquisition of Digital Media Group. In addition, we believed that there was false, deceptive and misleading information concerning Digital Media Group's financial condition and performance provided by the former management and selling shareholders of Digital Media Group, and as a result, we launched a lawsuit against the selling shareholders of Digital Media Group in December 2010. Accordingly, we recorded impairment loss of US\$14.9 million against the goodwill of allocated to the Digital Media Group reporting unit. In addition, we also recorded impairment charge of US\$41.7 million against the intangible assets arising from our acquisition of Digital Media Group.

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Impairment loss on intangible assets and goodwill accounted for 105.5% of our total revenues for the year ended December 31, 2010. We did not incur such impairment loss in 2011.

In June 2012, we recorded an impairment charge of US\$178.8 million against the goodwill and intangible assets in connection with our acquisition of six advertising businesses which we acquired in 2008 and Digital Media Group, which was completed in 2010. When we performed annual impairment test for goodwill and intangible assets of the six advertising businesses and Digital Media Group in June 2012, we determined that VisionChina Media had only one reporting unit. We determined that the poorer than expected performance of the reporting unit led to a potential impairment of the goodwill and intangible assets.. Accordingly, we recorded impairment loss of US\$142.4 million against the goodwill and intangible assets. In addition, we also recorded impairment charge of US\$36.4 million against the intangible assets arising from our acquisition of Digital Media Group and six advertising businesses. After recording such impairment losses, the carrying value of goodwill and intangible assets in connection to acquisition of Digital Media Group and six advertising agencies were nil.

Contingent Loss in Connection with a Litigation. We recorded a contingent loss of US\$6.0 million and US\$3.4 million in 2012 and 2011 respectively, in connection with the pending litigation between us and the selling shareholders of Digital Media Group. Please see Item 3. Key Information D. Risk Factors Risks Related to Our Corporate Structure Our ongoing litigation with the former shareholders of Digital Media Group may have a material adverse effect on our business and results of operations. for the details of this pending litigation. We did not record any contingent loss in 2010.

The contingent loss in 2012 and 2011 was recorded based on our current assessment of the probable outcome of pending litigation with the selling shareholders and former management of Digital Media Group. In the future, if there is any progress in this pending litigation that negative affects our such current assessment, we will record additional contingent loss in the corresponding period(s) when our assessment is impacted.

Government Grants and Subsidies

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 2012, we received government grants of a total US\$0.7 million from local government to subsidize our (i) being qualified as a cultural enterprise; (ii) costs expensed for various inventions in connection to mobile digital television receiver devices; and (iii) usage of airtime for social public services. We did not receive any government grants or subsidies in 2010 or 2011.

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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, 2012, there were 1,555,353 share options and 308,025 restricted shares outstanding to employees and consultants. Our total share-based compensation expenses accounted for 0.7%, 0.5% and 0.6% of our total revenues for the years ended December 31, 2010, 2011 and 2012, 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.

Loss from Equity Method Investees

Our equity investments primarily consist of our investments in our eleven direct investment entities that we account for using the equity method as of December 31, 2012. We expect our income from our existing equity method investees to increase as they finish building their networks and begin generating more revenues.

We generate advertising service revenue 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 profit (loss).

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

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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, was subject to an enterprise income tax rate of 15% for 2009 and 2010. In October 2011, VisionChina Media Group obtained the approval from the government authorities to be recognized as a state-encouraged high-new technology enterprise in 2011, 2012 and 2013, and is entitled to a preferential tax rate of 15% in these three years, subject to tax authority approval at the end of each year. In accordance with a circular issued in December 2010, Beijing Eastlong Technology has been recognized as a state-encouraged high-new technology enterprise starting from 2010, and the status is valid for a period of three years. As such the EIT rate for Beijing Eastlong Technology is 15% in each of the year of 2010, 2011 and 2012, respectively. Furthermore, 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, and reduced tax rate of 7.5%, 7.5% and 12.5% for the years 2010, 2011 and 2012, respectively.

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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. As a result, we expect our income tax expense to increase in future years compared to our historical periods.

Our effective EIT tax rate was 10.7%, 5.9% and 6.5% for the years ended December 31, 2010, 2011 and 2012, respectively. The difference between our effective EIT tax rate and the uniform EIT tax rate of 25% in the PRC is primarily attributable to the following factors: (1) effect of tax exemption and tax concessions granted to our PRC subsidiaries and our PRC variable interest entities; (2) effect of operating loss that could not be carried forward for tax deduction in future years; (3) tax expenses arising from items that are not deductible or not taxable for income tax purpose (for example, impairment loss on goodwill), and (4) change in valuation allowance against our deferred tax assets.

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. Because substantially all our revenues on a consolidated basis are generated in the PRC, and our company does not generate any taxable income on a stand alone basis, even if it is determined to be a resident enterprise for PRC tax purpose, we do not expect any material changes to 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.

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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.

Goodwill and intangible assets

We carry intangible assets, which consist of concession contracts, customer base, non-compete agreements, technology, trademark and patents, at cost less accumulated amortization. Amortization is calculated using the straight-line method over the estimated economic lives of the intangible assets. The expected useful lives of concession contracts are nine years, the expected useful lives of customer base are five years, the expected useful lives of non-compete agreements are ten years, the expected useful life of technology is nine years, the expected useful life of trademark is ten years, and the expected useful lives 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 respective dates of acquisitions, which primarily consisted of concession contracts, customer base and non-compete agreements. For our acquisitions completed prior to January 1, 2009, when the additional earn-out 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 excessive 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. For a concession contract, the fair value was based on the excessive earnings which take into consideration the projected cash flows to be generated

from the concession contract.

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 its estimated undiscounted cash flows expected to result from the use of the asset and its eventual disposition. If we determine that the carrying values of acquired intangible assets have been impaired, the carrying values will be written down to the fair values at the measurement date and impairment charges will be recorded.

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Goodwill represents the excess of costs of businesses acquired over fair value of acquired net tangible and identifiable intangible assets. Goodwill are not amortized, but instead tested for impairment at least annually in accordance with the provisions of FASB ASC 350, *Intangibles Goodwill and Other Intangible Assets*.

Goodwill is required to be reviewed for impairment at the reporting unit level at least annually and more frequently upon the occurrence of certain events. The goodwill impairment test is a two-step test. Under the first step, the fair value of the reporting unit is compared with its carrying value (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 fair value of the reporting unit is less than its carrying value, an indication of goodwill impairment exists for the reporting unit and the enterprise must perform step two of the impairment test (measurement). Under step two, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value of that goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation. The residual fair value after this allocation is the implied fair value of the reporting unit 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 through internal analysis, which utilizes income approach through the application of discounted cash flow method. 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 impairment test for the goodwill in connection with the six advertising agency businesses we acquired in 2008 in the second quarter of 2010 due to a significant decline in customer demand as a result of the change in relevant regulations in the PRC in 2010, and recorded impairment loss of US\$81.6 million against the goodwill allocated to three out of the six acquired businesses. The goodwill allocated to the other three acquired business was not impaired. In December 2010, we performed an annual goodwill impairment test for the Digital Media Group reporting unit. We determined that the poorer than expected performance of the Digital Media Group reporting unit led to a potential impairment of the goodwill allocated to the Digital Media Group reporting unit. In addition, we believed that there was false, deceptive and misleading information concerning Digital Media Group's financial condition and performance provided by the former management and selling shareholders of Digital Media Group, and as a result, we launched a lawsuit against the selling shareholders of Digital Media Group in December 2010. Accordingly, we recorded impairment loss of US\$14.9 million against the goodwill of allocated to the Digital Media Group reporting unit. The goodwill allocated to the other reporting units were not impaired in 2010 because the fair value of each of these reporting units substantially exceeded their respective carrying value at the time of impairment tests.

In 2011, we also performed an annual impairment test for the goodwill in connection with the six advertising agency businesses we acquired in 2008 and the goodwill in connection with our acquisition of Digital Media Group. No impairment loss was recorded in 2011 because the fair value of each of these reporting units substantially exceeded their respective carrying value at the time of impairment tests.

In June 2012, we recorded an impairment charge of US\$178.8 million against the goodwill and intangible assets in connection with our acquisition of six advertising businesses in 2008 and Digital Media Group, which was completed in 2010. When we performed annual impairment test for goodwill and intangible assets of the six advertising businesses and Digital Media Group in June 2012, we determined that VisionChina Media had only one reporting unit. We determined that the poorer than expected performance of the reporting unit led to a potential impairment of the goodwill and intangible assets. Accordingly, we recorded impairment loss of US\$142.4 million against the goodwill. In addition, we also recorded impairment charge of US\$36.4 million against the intangible assets arising from our acquisition of Digital Media Group and six advertising businesses. After recording such impairment losses, the carrying value of goodwill and intangible assets in connection to acquisition of Digital Media Group and six advertising agencies were nil.

Currently we do not expect to incur future impairment charges in the coming years. 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.

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Allowance for doubtful accounts

We evaluate the recoverability of our accounts receivable 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 receivable become uncollectible, we record additional adjustments to receivables to reflect the amounts at net realizable value. We recorded allowance for doubtful debt of US\$0.6 million, US\$2.9 million and US\$5.3 million within general and administrative expenses in 2010, 2011 and 2012, respectively, representing 0.4%, 1.6% and 4.6% as a percentage to our total revenues in that year. As of December 31, 2010, 2011 and 2012, we had allowance for doubtful debt of US\$1.4 million, US\$4.4 million and US\$9.4 million, respectively. 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 US\$0.6 million, nil and nil in 2010, 2011 and 2012, respectively, as we had exhausted all means of collection. We believe that the balance of allowance for doubtful accounts receivable is sufficient to reflect the recoverability of our accounts receivable. We do not expect the allowance for doubtful accounts, which is charged to our consolidated statement of operations, to increase significantly as a percentage of our total revenues in future years. We also do not expect our allowance for doubtful accounts to have a significant impact on our liquidity and capital resources.

Contingencies

The outcomes of legal proceedings and claims brought against our company are subject to significant uncertainty. FASB ASC 450-20-25-2, *Contingencies- Loss Contingencies-Recognition*, requires that an estimated loss from a loss contingency such as a legal proceeding or claim should be accrued by a charge to income if it is probable that an asset has been impaired or a liability has been incurred and the amount of the loss can be reasonably estimated. Disclosure of a contingency is required if there is at least a reasonable possibility that a loss has been incurred.

In determining whether a loss should be accrued we evaluate, among other factors, the degree of probability of an unfavorable outcome and the ability to make a reasonable estimate of the amount of loss. While we believe that we might incur losses from such legal proceedings, it is unable to make a reasonable estimate of the amount of loss. Changes in these factors could materially impact our financial position or our results of operations.

Our ability to continue as a going concern

When assessing our ability to continue as a going concern, our management must make judgments and estimates about various aspects of our business, including the following:

- plans to raise new funds, restructure our debt and reorganize our capital structure;
- the timing and amount of cash flows from operating activities;

- plans to reduce and delay our expenditures;
- our ability to comply with the various debt covenants; and
- the present and future regulatory, business, credit and competitive environment in which we operate.

These factors individually and collectively will have a significant effect on our financial condition and results of operations and on our ability to generate sufficient cash to repay our indebtedness as it becomes due.

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.

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	2010	For the Year Ended December 31, 2011 (US\$, except number of shares)	2012
Condensed Consolidated Statement of Operations Data			
Revenues			
Advertising service revenue	138,056,640	179,415,668	114,741,386
Advertising equipment revenue		1,778,682	926,464
Total revenues	138,056,640	181,194,350	115,667,850
Cost of revenues			
Advertising service cost	(121,000,454)	(127,057,954)	(121,374,431)
Advertising equipment cost		(1,494,027)	(345,291)
Total cost of revenues	(121,000,454)	(128,551,981)	(121,719,722)
Gross profit (loss)	17,056,186	52,642,369	(6,051,872)
Operating expenses	(183,535,813)	(63,639,179)	(246,463,622)
Government grant			756,757
Share of (losses) profits from equity method investees	(109,989)	230,280	45,509
Dividend income		142,265	162,100
Gain on disposal of a subsidiary		175,903	
Operating profit (loss)	(166,589,616)	(10,448,362)	(251,551,128)
Interest income	2,082,605	1,711,117	696,292
Interest expense	(4,952,239)	(4,716,577)	(2,614,543)
Other income (expenses)		42,153	(605,958)
Net loss before income taxes	(169,459,250)	(13,411,669)	(254,075,337)
Income tax (expense) benefit	18,202,289	793,415	7,547,421
Net loss	(151,256,961)	(12,618,254)	(246,527,916)
Net (income) loss attributable to noncontrolling interest	(81,261)	114,962	118,724
Net loss attributable to VisionChina Media Inc. shareholders	(151,338,222)	(12,503,292)	(246,409,192)
Net loss per share:			
Basic	(1.83)	(0.12)	(2.43)
Diluted	(1.83)	(0.12)	(2.43)
Weighted average number of shares used in computation			
Basic	82,739,234	102,047,414	101,351,222
Diluted	82,739,234	102,047,414	101,351,222
Share-based compensation expenses during the related periods included in:			
Cost of revenues	100,711	58,836	52,824
Selling and marketing expenses	432,632	447,767	394,719
General and administrative expenses	414,162	311,070	221,111

Year Ended December 31, 2012 Compared to Year Ended December 31, 2011

Total Revenues. Our total revenues decreased to US\$115.7 million in 2012 from US\$181.2 million in 2011.

- Our advertising service revenue decreased to US\$114.7 million in 2012 from US\$179.4 million in 2011. The decreasing advertising service revenue was primarily attributable to a decrease in advertising spending by our advertisers due to weaker economy and a significant decrease in advertising spending from internet companies

- We generated advertising equipment revenue of US\$0.9 million in 2012, compared to US\$1.8 million in 2011.

Cost of Revenues. Our cost of revenues decreased to US\$121.7 million in 2012 from US\$128.6 million in 2011.

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- Our media cost decreased to US\$97.1 million in 2012 from US\$103.0 million in 2011. The decrease in our media cost was primarily a result of our cost control efforts, such as restructuring certain loss making concession contracts. The number of cities operating under our exclusive agency model was 19 cities as of both December 31, 2012 and 2011.
- Our depreciation expense increased to US\$4.0 million in 2012 from US\$3.9 million in 2011.
- Our business tax decreased to US\$3.4 million in 2012 from US\$7.3 million in 2011, which was mainly due to our lower advertising revenue.
- Our amortization of intangible assets decreased to US\$2.8 million in 2012 from US\$5.3 million in 2011, as a result of our write down of acquired intangible assets in connection to acquisition of Digital Media Group.
- Our other operating costs related to the provision of advertising service revenue mainly include salaries and expenses related to installation and maintenance of the displays in our network, and increased to US\$14.1 million in 2012 from US\$7.4 million in 2011, as a result of the increased investments in content production.
- We recorded advertising equipment cost of US\$0.3 million in 2012, compared to US\$1.5 million in 2011.

Gross Loss (Profit). As a result of the foregoing, our gross loss was US\$6.1 million in 2012 compared to gross profit of US\$52.6 million in 2011. Our gross margin was negative 5.2% in 2012, compared to gross margin of 29.1% in 2011, primarily due to lower advertising revenue during 2012.

Operating Expenses. Our operating expenses increased to US\$246.5 million in 2012, which included US\$178.8 non-cash impairment losses in connection to write down of goodwill and intangible assets. Excluding the one-off impairment charge, our operating expenses was USD\$67.7 million, as compared to US\$63.6 million in 2011, which is primarily due to the increase of provision for contingent loss in connection to the litigation, litigation related legal expenses and provision for doubtful debts.

- **Selling and Marketing Expenses.** Selling and marketing expenses decreased to US\$43.0 million in 2012 from US\$44.9 million in 2011. Our selling and marketing expenses decreased primarily as a result of our measures to reduce the cost of our sales and marketing activities.

- **General and Administrative Expenses.** General and administrative expenses increased to US\$18.7 million in 2012 from US\$13.2 million in 2011. The increase in our general and administrative expenses attributable to litigation related legal expenses and provision for doubtful debts.
- **Impairment Loss on Intangible Assets and Goodwill.** We recorded impairment loss on our intangible assets and goodwill totaling US\$178.8 million 2012, compared to nil in 2011.
- **Other Operating Expense.** Other operating expense was nil in 2012, compared to US\$2.1 million in 2011.

Other operating expenses in 2011 represented a one-off penalty payment made in the first quarter of 2011 for the termination of an exclusive advertising agency agreement that was unfavorable to our profitability. We believe that the benefit of the terminating this agreement outweighed the negative effect of continuing to perform this agreement.

- **Contingent Loss in Connection with Litigation.**

In 2011 and 2012, we recorded a contingent loss of US\$3.4 million and US\$6.0 million in connection with the pending litigation between us and the selling shareholders of Digital Media Group (please see Item 3. Key Information D. Risk Factors Risks Related to Our Corporate Structure

Our ongoing litigation with the former shareholders of Digital Media Group may have a material adverse effect on our business and results of operations. for the details of this pending litigation). The contingent loss in 2011 was recorded based on our current assessment of the possible outcome of pending litigation with the selling shareholders and former management of Digital Media Group In the future, if there is any progress in this pending litigation that negative affects our such current assessment, we will record additional contingent losses in the corresponding period(s) when our assessment is impacted.

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Share of Profits from Equity Method Investees. We recorded share of profits from equity method investees of US\$45.5 thousand in 2012, compared to US\$0.2 million in 2011, which is mainly due to decrease in earnings of our equity method investees.

Operating Loss. As a result of the foregoing, our operating loss increased to US\$251.6 million in 2012, compared to US\$10.4 million in 2011.

Interest Income. Our interest income decreased to US\$0.7 million in 2012 from US\$1.7 million in 2011.

Interest Expense. Our interest expense was US\$2.6 million in 2012, compared to US\$4.7 million in 2011.

Income Taxes. We recognized income tax benefit of US\$7.5 million and US\$0.8 million in 2012 and 2011, respectively.

Net Loss Attributable to Noncontrolling Interest. Our net loss attributable to noncontrolling interest amounted to US\$0.1 million in 2012, compared to net loss attributable to noncontrolling interest of US\$0.1 million in 2011.

Net Loss Attributable to VisionChina Media Inc. Shareholders. As a result of the foregoing, net loss attributable to our shareholders increased to US\$246.4 million in 2012, compared to US\$12.5 million in 2011.

Year Ended December 31, 2011 Compared to Year Ended December 31, 2010

Total Revenues. Our total revenues increased significantly to US\$181.2 million in 2011 from US\$138.1 million in 2010.

- Our advertising service revenue increased to US\$179.4 million in 2011 from US\$138.1 million in 2010. The increase in advertising service revenue was primarily attributable to the increased sales of advertising time on our mobile digital television advertising network as a result of the continuing efforts by our sales force
- We generated advertising equipment revenue of US\$1.8 million in 2011, compared to nil in 2010.

Cost of Revenues. Our cost of revenues increased to US\$128.6 million in 2011 from US\$121.0 million in 2010.

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- Our media cost increased to US\$103.0 million in 2011 from US\$97.8 million in 2010. The increase in our media cost was primarily due to the annual escalation in media cost at pre-determined fixed amounts under our exclusive agency agreements, which was partially offset by our decision to terminate or not to renew some of the exclusive agency agreements under which we did not generate sufficient advertising service revenue. The number of cities operating under our exclusive agency model decreased to 19 cities as of December 31, 2011 from 20 cities as of December 31, 2010.
- Our depreciation expense increased slightly to US\$3.9 million in 2011 from US\$3.4 million in 2010 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\$7.3 million in 2011 from US\$3.2 million in 2010, which is mainly driven by the increase in our advertising service revenue.
- Our amortization of intangible assets decreased to US\$5.3 million in 2011 from US\$10.2 million in 2010. In connection with our acquisition of Digital Media Group in January 2010, we recorded the concession contracts acquired from Digital Media Group as intangible assets. The cost of these intangible assets was measured at the estimated fair value of the concession contracts of US\$90.9 million on the acquisition date, and is amortized over its expected useful life of 9 years using straight line method. The amortization of such intangible assets is recorded within advertising service cost. In December 2010, when we performed an impairment test for intangible assets, we determined that the worse than expected performance of the Digital Media Group reporting unit led to a potential impairment of the intangible assets in connection with our acquisition of Digital Media Group. In addition, we believed that Digital Media Group's former management and shareholders provided false, deceptive and misleading information concerning Digital Media Group's financial condition and performance, and as a result, we initiated a lawsuit against the selling shareholders of Digital Media Group in December 2010. Accordingly, we recorded an impairment charge of US\$41.7 million against the intangible assets arising from our acquisition of Digital Media Group in 2010, which resulted in the decrease in amortization of these intangible assets in 2011.
- Our other operating costs related to the provision of advertising service revenue mainly include salaries and expenses related to installation and maintenance of the displays in our network, and increased to US\$7.4 million in 2011 from US\$6.4 million in 2010.
- We recorded advertising equipment cost of US\$1.5 million in 2011, compared to nil in 2010.

Gross Profit. As a result of the foregoing, our gross profit was US\$52.6 million in 2011 compared to US\$17.1 million in 2010. Our gross margin increased to 29.1% in 2011 from 12.4% in 2010. Our gross margin increased because the increase in our advertising service revenue was greater than the increase in our media cost.

Operating Expenses. Our operating expenses decreased to US\$63.6 million in 2011 from US\$183.5 million in 2010.

- ***Selling and Marketing Expenses.*** Selling and marketing expenses increased to US\$44.9 million in 2011 from US\$28.3 million in 2010. Our selling and marketing expenses increased primarily as a result of the overall increase in our marketing and promotional activities.
- ***General and Administrative Expenses.*** General and administrative expenses increased to US\$13.2 million in 2011 from US\$9.5 million in 2010. The increase in our general and administrative expenses attributable to the provision for certain doubtful accounts receivable as well as the increase in legal fees in connection with pending litigation with the selling shareholders and former management of Digital Media Group.
- ***Impairment Loss on Intangible Assets and Goodwill.*** We recorded impairment loss on our intangible assets and goodwill totaling US\$145.7 million 2010. We did not incur any impairment loss on our intangible assets and goodwill in 2011.

In the second quarter of 2010, we recorded impairment charge of US\$89.1 million against the goodwill and intangible assets for three out of the six acquired advertising agency businesses, namely, Peak, Goldwhite and Ahead. Due to the change in relevant regulations in the PRC in 2010, there was a significant decline in customer demand, intense pricing pressure and increasing competition of Peak, Goldwhite and Ahead reporting units which indicated the potential impairment loss on the goodwill and intangible assets of these reporting units. We therefore performed an impairment analysis for these reporting units in June 2010. Accordingly, we recorded impairment loss in aggregate of US\$81.6 million against the goodwill allocated to the Peak, Goldwhite and Ahead reporting units, and impairment loss in aggregate of US\$7.5 million against the intangible assets arising from the acquisitions of Peak, Goldwhite and Ahead. The remaining three acquired agencies are not subject to impairment loss.

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When we performed annual impairment test for the Digital Media Group reporting unit in December 2010, we determined that the poorer than expected performance of the Digital Media Group reporting unit led to a potential impairment of the goodwill and intangible assets in connection with our acquisition of Digital Media Group. In addition, we believed that there was false, deceptive and misleading information concerning Digital Media Group's financial condition and performance provided by the former management and selling shareholders of Digital Media Group, and as a result, we launched a lawsuit against the selling shareholders of Digital Media Group in December 2010. As a result of our impairment test, we recorded impairment loss of US\$14.9 million against the goodwill of allocated to the Digital Media Group reporting unit in December 2010. In addition, we also recorded impairment charge of US\$41.7 million against the intangible assets arising from our acquisition of Digital Media Group.

- **Other Operating Expense.** Other operating expense in 2011 was US\$2.1 million, representing a one-off penalty payment made in the first quarter of 2011 for the termination of an exclusive advertising agency agreement that was unfavorable to our profitability. We believe that the benefit of the terminating this agreement outweighed the negative effect of continuing to perform this agreement. We did not incur these types of expenses in 2010.

- **Contingent Loss in Connection with Litigation.** In 2011, we recorded a contingent loss of US\$3.4 million in connection with the pending litigation between us and the selling shareholders of Digital Media Group (please see Item 3. Key Information D. Risk Factors Risks Related to Our Corporate Structure Our ongoing litigation with the former shareholders of Digital Media Group may have a material adverse effect on our business and results of operations. on pages 31 through 32 for the details of this pending litigation). We did not incur any contingent losses in 2010.

The contingent loss in 2011 was recorded based on our current assessment of the possible outcome of pending litigation with the selling shareholders and former management of Digital Media Group. In the future, if there is any progress in this pending litigation that negatively affects our current assessment, we will record additional contingent losses in the corresponding period(s) when our assessment is impacted.

Share of Profits (Losses) from Equity Method Investees. We recorded income from equity method investees of US\$0.2 million in 2011 compared to a loss of US\$0.1 million in 2010, which is mainly due to the improvement of the operating results of our equity method investees.

Operating Loss. As a result of the foregoing, our operating loss narrowed to US\$10.4 million, compared to US\$166.6 million in 2010.

Interest Income. Our interest income decreased slightly to US\$1.7 million in 2011 from US\$2.1 million in 2010.

Interest Expense. Our interest expense was US\$4.7 million in 2011, compared to US\$5.0 million in 2010.

Income Taxes. We recognized income tax benefit of US\$0.8 million and US\$18.2 million in 2011 and 2010, respectively. The income tax benefit recorded in 2010 mainly consisted of tax credits of US\$12.2 million in connection with the impairment loss on intangible assets.

Net Loss (Income) Attributable to Noncontrolling Interest. Our net loss attributable to noncontrolling interest amounted to US\$0.1 million in 2011, compared to net income attributable to noncontrolling interest of US\$0.1 million in 2010, primarily as the result of the net loss of a subsidiary. .

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Net Loss Attributable to VisionChina Media Inc. Shareholders. As a result of the foregoing, net loss attributable to our shareholders decreased to US\$12.5 million in 2011, compared to US\$151.3 million in 2010.

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.

As of December 31, 2012, we had US\$29.0 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, 2012, we had a RMB57 million RMB denominated secured revolving credit facility scheduled to expire on June 24, 2013 granted by Bank of China (Shenzhen branch) to CDTC. The revolving credit facility is secured by restricted cash of US\$10 million. This revolving credit facility is available for general corporate working capital purposes at an interest rate of 6.3%.

In January 2013, we entered into another RMB150 million RMB denominated secured revolving credit facility, granted by China Construction Bank (Shenzhen branch) to our consolidated variable interest entity, VisionChina Media Group, that is scheduled to expire on January 13, 2014. This revolving credit facility is secured by accounts receivable of VisionChina Media Group. This credit facility is available for general corporate working capital purposes at an interest rate of 160% of the People's Bank of China Benchmark interest rate (Benchmark Rate). This credit facility contains a restrictive financial covenant of maintaining a leverage ratio of no higher than 65% by VisionChina Media Group. Violation of this financial covenant could result in a default under the this revolving credit facility, which would permit the lending bank to terminate this revolving credit facility and require immediate repayment from us of any outstanding loans advanced.

As of December 31, 2012, aggregate undistributed earnings of our subsidiaries and variable interest entities located in the PRC that are available for distribution to us amounted to approximately US\$2.0 million. We intend to have such undistributed earnings indefinitely reinvested, and accordingly, no provision has been made for the PRC dividend withholding taxes that would be payable upon the distribution of those amounts to us. However, the actual amount of earnings distributable to us from our subsidiaries and VIEs in the PRC could vary as a result of the restrictions and procedures governed by the relevant tax authorities and the State Administration of Foreign Exchange.

In January 2011, we issued 15,331,305, 1,022,087 and 1,022,087 common shares to Focus Media, JJ Media Investment Holding Limited and Front Lead, respectively, each at a price of US\$3.979 per share pursuant to the securities purchase agreements entered into between our company and each of these companies. We received net proceeds of approximately US\$69.0 million from this share issuance transaction.

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

We incurred net loss attributable to our shareholders of US\$151.3 million, US\$12.5 million and US\$246.4 million in 2010, 2011 and 2012, respectively. Our net loss in 2010 was mainly due to the impairment loss made against goodwill and intangible assets of US\$145.7 million and the decrease in our gross profit due to the significant increase in our media cost. 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 revenue. 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 our cash on hand and at bank as well as 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.

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

	2010	For the Year Ended December 31, 2011 (US\$)	2012
Net cash used in operating activities	(22,210,745)	(17,617,058)	(27,190,937)
Net cash (used in) provided by investing activities	(29,628,601)	65,124,624	(13,114,869)
Net cash provided by (used in) financing activities	48,340,743	(36,135,463)	(11,593,890)
Effect of changes in exchange rate	1,875,852	1,726,190	602,448
Net (decrease) increase in cash and cash equivalents	(1,622,751)	13,098,293	(51,297,248)
Cash and cash equivalents, beginning of year	68,834,087	67,211,336	80,309,629
Cash and cash equivalents, end of year	67,211,336	80,309,629	29,012,381

Operating Activities

Our net cash used in operating activities amount to US\$27.2 million in 2012. Our net cash used in operating activities amounted to US\$17.6 million in 2011, compared to our net cash used in operating activities amounted to US\$22.2 million in 2010. Our net cash used in operating activities in 2012 was primarily as a result of our negative operating results.

Investing Activities

Our net cash used in investing activities amounted to US\$13.1 million in 2012, mainly representing deposits of US\$10.0 million with Bank of China Macau Branch as collateral for a bank borrowing of RMB56.0 million with Bank of China Shenzhen Branch.

Our net cash provided by investing activities amounted to US\$65.1 million in 2011, compared to net cash used in investing activities of US\$29.6 million in 2010. Our net cash provided by investing activities in 2011 was primarily attributable to the decrease in our restricted cash of US\$68.8 million, which consisted of a pledged bank deposit for the purpose of obtaining an offshore bank credit line to finance foreign currency payments for our acquisition of Digital Media Group. Upon our repayment of this foreign currency bank loan in 2011, the restriction of this pledged bank deposit was released, which resulted in a cash inflow in our investing activities. The effect of the decrease in our restricted cash was partially offset by the payment for purchases of fixed assets of US\$2.3 million and the settlement of the remaining consideration payable of US\$1.3 million in connection with our acquisitions of the six advertising agency businesses in 2008.

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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 six advertising agency businesses in the PRC. 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 determined the earnings (as defined below) 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 were earnings for any of these relevant periods, we would make payments to the sellers, the amounts of which were 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 multiples ranging from 1.0 to 2.3 on the earnings of the respective acquired businesses for the years ended December 31, 2008, 2009 and 2010, contingent upon the collection of the relevant revenues of respective acquired businesses, or the Earn-out Consideration. The earnings represented advertising service revenue generated by the acquired business as deducted by the relevant operating costs and expenses (including media costs, business taxes and surcharges, sales and marketing expenses, general and administrative expenses, allowance for doubtful accounts) incurred by the corresponding acquired businesses. The Earn-out Consideration was assessed quarterly and settled on demand. Earn-out Consideration was accounted for as the purchase price of the acquired businesses when the contingency as stipulated in the acquisition agreements are resolved, that is when the relevant revenues of the respective acquired businesses for the years ended December 31, 2008, 2009 and 2010 were collected, by recording additional goodwill with a corresponding credit to consideration payable. Pursuant to the terms of the acquisition agreements, we paid initial deposits of US\$16.7 million in the year ended December 31, 2008. These initial deposits were used to offset a portion of the additional consideration payable at the end of the earn-out period in June 2011. We recorded Earn-out Consideration of US\$87.9 million, US\$28.1 million and US\$1.3 million in 2009, 2010 and 2011, respectively, and made cash settlements of US\$64.2 million, US\$68.5 million and US\$1.3 million in 2009, 2010 and 2011 respectively. As of December 31, 2011, the Earn-out Consideration payables were fully settled. No additional Earn-out Consideration will be recorded or paid in future years in connection with our acquisition of these six advertising agency businesses.

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 by means of cash and our common 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.

Financing Activities

Our net cash used in financing activities amounted to US\$11.6 million in 2012, which primarily due to the repayment of bank loans. Our net cash provided by financing activities amounted to US\$48.3 million in 2010, which primarily consisted of proceeds from bank loans of US\$78.2 million, and proceeds from issuance of common shares to our certain existing shareholders and employees of US\$12.9 million, which was offset by the repayment of bank loans amounting to US\$42.8 million. Our net cash used in financing activities amounted to US\$36.1 million in 2011, which primarily consisted of repayment of bank loans of US\$123.8 million, and cash paid for share repurchases of US\$1.9 million, which was partially offset by proceeds from our share issuance transaction completed in January 2011 of US\$69.0 million (please see Item 4. Information of the Company A. History and Development of the Company on page 46 for the details of this share issuance transaction) and proceeds from bank loans of US\$20.5 million.

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Working Capital Deficit

We incurred net loss of US\$151,256,961, US\$12,618,254 and US\$246,527,916 respectively for the years ended December 31, 2010, 2011 and 2012. During the year ended December 31, 2012, we experienced negative cash flow of operations of \$27,190,937. As of December 31, 2012, we had an overdue consideration payable of US\$64.0 million in relation to the acquisition of Digital Media Group which is currently the subject of litigation with the Former Digital Media Group shareholders. In August 2012 the New York Court ordered us to transfer US\$60 million into New York State to be held in the custody of the New York City Sheriff's Office or into an escrow account controlled by the New York City Sheriff. US\$4.5 million that were held by us outside the China was transferred to the New York City Sheriff accordingly as of December 31, 2012. We were not able to transfer the remaining balance of US\$55.5 million as ordered by the New York Court as we have cash and cash equivalents of US\$29.0 million only as of December 31, 2012, most of which are held by our subsidiaries or consolidated variable interest entities in China and moreover we had not been able to obtain approval from the relevant authority in China to transfer assets or cash held by us in China to satisfy the transfer order of the New York Court.

These factors raise substantial doubt as to our ability to continue as a going concern. Under such circumstances, we have developed a liquidity plan, as summarized below, which, if executed successfully, will provide sufficient liquidity to meet our obligations as they become due for a reasonable period of time.

- We have taken or are in the process of taking a number of initiatives to reduce costs and improve working capital management. We have been negotiating with a number of vendors, including vendors of concession right contracts, for them to provide us with lower prices or more favorable payment terms in order to achieve cost savings. We have decided to postpone a substantial portion of its planned capital expenditures for the next twelve months. In addition, we have implemented measures to more closely monitor the collection of receivable balances with an aim to improving liquidity.
- We have successfully negotiated with certain banks and will continue to negotiate with other banks to obtain revolving bank facilities to ensure our bank borrowings can be renewed on an on-going basis. From January 1, 2013 to May 29, 2013, we had obtained additional secured short-term bank borrowings of US\$24.2 million with interest rates of 160% of the People's Bank of China Benchmark rate (Benchmark Rate). We are currently seeking secured credit facilities from other PRC financial institutes of approximately US\$48 million which we can utilize for working capital purpose in the next twelve-month period.
- We have performed a review of its cash flow forecast for the twelve months ending December 31, 2013. We believe that its operating cash flow will improve in 2013. While management believes the forecast is based on reasonable assumptions, significant assumptions include revenue growth rate of 9%.

We believe that the measures as described in the above liquidity plan will be adequate to satisfy our liquidity requirements for the next 12 months. For additional information regarding our liquidity plan, see Note 2 Basis of Presentation of our consolidated financial statements. There is no assurance, however, that we will be able to successfully implement the liquidity plan. If we fail to successfully execute this plan, we may not be able to continue as a going concern. Also see Item 3. Key Information D. Risk Factors Risks Relating to Our Company and Our Industry

We have substantial existing indebtedness, in particular short-term indebtedness, and we may incur substantial additional indebtedness in the future subject to our compliance with the covenants and other requirements in our existing financing arrangements, which could adversely affect our financial condition and our ability to generate sufficient cash to satisfy our outstanding and future debt obligations and we may not be able to refinance our current borrowings on terms that are acceptable to us, or at all ; these conditions raise substantial doubt as to our ability to continue

as a going concern in this annual report.

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Holding Company Structure

As a holding company, our company may rely on dividends and other distributions from our PRC subsidiaries to fund its liquidity needs. Current PRC laws and regulations permit our PRC subsidiaries to pay dividends only out of their retained earnings, if any, determined in accordance with PRC accounting standards and regulations. In addition, our PRC subsidiaries are required to set aside a certain amount of their after-tax profits each year to fund certain reserve funds, and these reserves may not be distributed as cash dividends. See Item 3. Key Information D. Risk Factors Risks Related to our Corporate Structure 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 for more information. Historically, our PRC wholly owned subsidiaries, CDTC and Beijing Eastlong Technology, did not pay dividends to us. Our management believes that it will be able to pay dividends to us from CDTC and Beijing Eastlong Technology, but our management does not have any present plan for receiving dividends from our PRC operating subsidiaries including CDTC and Beijing Eastlong Technology. Currently we plan to use all our retained profits in our PRC subsidiaries and consolidated affiliates, including CDTC and Beijing Eastlong Technology, to reinvest for our future business expansion.

CDTC and Beijing Eastlong Technology has the right to receive service and royalty fees, as applicable, from VisionChina Media Group and Beijing Eastlong Advertising, respectively, pursuant to our contractual arrangements. Pursuant to these arrangements, the earnings and cash of VisionChina Media Group Limited and Beijing Eastlong Advertising and their subsidiaries will be used to pay such fees in RMB to CTDC and Eastlong Technology, respectively, in the manner and amount set forth in the relevant agreements. Historically, CTDC and Eastlong Technology agreed to waive the service and royalty fees from VisionChina Media Group Limited and Beijing Eastlong Advertising because (i) the Company determined to retain funds in VisionChina Media Group Limited and Beijing Eastlong Advertising for network expansion and media asset acquisition in China and (ii) VisionChina Media Group Limited and Beijing Eastlong Advertising were in accumulated net loss positions under U.S. GAAP.

Capital Expenditures

We had capital expenditures of US\$3.6 million, US\$2.3 million and US\$1.8 million for the years ended December 31, 2010, 2011 and 2012, respectively. 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 2013 to primarily consist of purchases of digital television displays and related equipment as we continue to expand our mobile digital television advertising network and content production equipment]. 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. As of March 31, 2013, our local operating partners in the seven cities except for in Beijing have not yet begun the conversion process. Under our exclusive advertising agency agreements, we are responsible for a portion of such expenditures in five of these seven cities. The total cost of converting the equipment to the National Standard in these four cities Beijing, Nanjing, Changchun and Zhengzhou is not expected to exceed RMB10.0 million. However, we and our local operating partners have not yet determined the allocation of the conversion expenses. We believe that these capital expenditures would not materially affect our liquidity. For details of the required compliance with the National Standard, please refer to Item 3. Key Information D. Risk Factors Risks Related to Our Company and Our Industry A significant portion of the mobile digital television networks of our direct investment entities and the digital television broadcasting infrastructure of our local operating partners currently 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.

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Recently Issued Accounting Pronouncements

In December 2011, the Financial Accounting Standards Board (FASB) has issued an authoritative pronouncement related to Disclosures about Offsetting Assets and Liabilities. The guidance requires an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. An entity is required to apply the amendments for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. An entity should provide the disclosures required by those amendments retrospectively for all comparative periods presented.

In July 2012, the FASB has issued an authoritative pronouncement related to testing indefinite-lived intangible assets, other than goodwill, for impairment. Under the pronouncement, entities testing indefinite-lived intangible assets for impairment would have the option of performing a qualitative assessment before calculating the fair value of the asset. If an entity determines, on the basis of qualitative factors, that the indefinite-lived intangible asset is not more likely than not impaired, a quantitative fair value calculation would not be needed. The amendments are effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. Early adoption is permitted.

In February 2013, the FASB issued an authoritative pronouncement related to reporting of amounts reclassified out of accumulated other comprehensive income, to improve the transparency of reporting these reclassifications. Other comprehensive income includes gains and losses that are initially excluded from net income for an accounting period. Those gains and losses are later reclassified out of accumulated other comprehensive income into net income.

The guidance expands the exiting disclosure requirement for reporting net income or other comprehensive income in financial statements, including:

- Present (either on the face of the statement where net income is presented or in the notes) the effects on the line items of net income of significant amounts reclassified out of accumulated other comprehensive income - but only if the item reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period.
- Cross-reference to other disclosures currently required under U.S. GAAP for other reclassification items (that are not required under U.S. GAAP) to be reclassified directly to net income in their entirety in the same reporting period. This would be the case when a portion of the amount reclassified out of accumulated other comprehensive income is initially transferred to a balance sheet account (e.g., inventory for pension-related amounts) instead of directly to income or expense.

For public entities, the guidance is effective for reporting periods beginning after December 15, 2012. Early adoption is permitted. The Group will adopt this pronouncement on January 1, 2013, and do not expect the adoption of this pronouncement will have a significant impact on its financial condition or results of operations.

C. Research and Development

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

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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, 2012 to December 31, 2012 that are reasonably likely to have a material adverse effect on our total revenues, net loss, 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, 2012:

	Total	Less than 1 year	1-3 years (US\$)	3-5 years	More than 5 years
Long-term purchase agreement	265,276,000	75,212,000	136,495,000	33,449,000	20,120,000
Operating lease obligations	1,504,689	935,023	502,288	37,383	29,995
Total contractual obligations	266,780,689	76,147,023	136,997,288	33,486,383	20,149,995

We have entered into several agreements under our exclusive agency model to purchase advertising time from local mobile digital television companies typically for a period of five to ten years. As of December 31, 2012, future minimum purchase commitments under these agreements totaled approximately US\$3.2 million.

Operating lease obligations represent leasing arrangements relating to the lease of our office premises.

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

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- 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 March 31, 2013.

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Name	Age	Position/Title
Limin Li	52	Chairman of the Board of Directors, Chief Executive Officer
Yan Wang	35	Chief Financial Officer
Wei Liu	46	Chief Operating Officer
Haijun Liu	50	Chief Development Officer
Yanqing Liang (1)(2)(3)	41	Independent Director
Kit Leong Low	42	Director
Arthur Wong (1)(2)(3)	53	Independent Director
Xisong Tan (1)(2)(3)	65	Independent Director

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- (1) Audit committee members
 - (2) Compensation committee members
 - (3) Corporate governance and nominating committee members

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 Meiyue 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.

Yan Wang has been our chief financial officer since August 2012. Mr. Wang was our senior vice president from February 2012 to August 2012, vice president of finance from January 2011 to February 2012, and senior financial controller from December 2009 to January 2011. 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 U.S. 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.

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Wei Liu has been our chief operating officer since January 23, 2013. Ms. Liu began her career in 1993 at the Hunan Broadcasting Group, one of the top satellite TV stations in China. She was one of the key founding members of the Hunan Traffic Radio Channel, where she held a number of positions including chief of the advertising department, deputy director and director. Ms. Liu helped establish the Hunan Traffic Radio Channel among China's first-tier radio channels with revenue growth of over 50% each year of her tenure there. In 2011, she was promoted to vice president of the Hunan Radio Station, where she produced a series of highly regarded events and was named as one of The Top Ten Advertising Talents of Hunan Province.

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.

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.

Kit Leong Low has been a director of our company since June 2011. He has served as chief financial officer of Focus Media Holding Limited since January 2010 and as director of Focus Media Holding Limited since May 2011. Prior to joining Focus Media, Mr. Low was an executive director of a Greater China entertainment conglomerate, eSun Holdings, from June 2007 to January 2010. Prior to that, from June 2003, he was an executive director at the Goldman Sachs Asia-Pacific Research Media and Internet team whose coverage included media and Internet companies in Greater China. Before joining Goldman Sachs, starting 1993 he worked as a program manager for Johnson Controls Inc., managing Toyota vehicles interior development in the United States. He subsequently joined Sybase Inc., an enterprise software company in the United States, as a Program Manager in its Global Products Group in 2000. He received his Bachelor of Science degree in Industrial Engineering and Motion Picture Production from the University of Wisconsin-Madison, and his MBA from Columbia Business School in the United States.

Arthur Wong has been a director of our company since December 2011. He currently also serves as an independent director of Daqo New Energy Corp and China Automotive Systems, Inc., both listed on the NASDAQ, and Besunyen Holdings Company Limited, a company listed on the Hong Kong Stock Exchange. From 2008 to 2012, Mr. Wong served as chief financial officer for Asia New-Energy, Nobao Renewable Energy and GreenTree Inns Hotel Management Group sequentially. From 1982 to 2008, Mr. Wong worked for Deloitte Touche Tohmatsu, in Hong Kong, San Jose and Beijing over various periods of time, most recently as a partner in the Beijing office. Mr. Wong received a bachelor's degree in applied economics from the University of San Francisco and a higher diploma of accountancy from Hong Kong Polytechnic University. He is a member of the American Institute of Certified Public Accountants and the Hong Kong Institute of Certified Public Accountants.

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.

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

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B. Compensation of Directors and Executive Officers

Compensation of Directors and Executive Officers

In 2012, the aggregate cash compensation to our executive officers, including all the directors, was US\$0.9 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.

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

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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 December 31, 2012, there were 1,863,378 common shares issuable upon the exercise of outstanding share options at a weighted average exercise price of US\$4.55 per share and restricted shares, and there were 1,479,379 common shares available for future issuance upon the exercise of future grants under our 2006 share incentive plan. The following table summarizes, as of December 31, 2012, 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 or Restricted Shares (US\$/Share)	Grant Date	Expiration Date
Limin Li	350,000	6.545	August 30, 2007	August 30, 2017
Haijun Liu(1)	*	1.00/ 8.53	December 8, 2006/ October 8, 2009	December 8, 2016/ October 8, 2019
Yan Wang(2)	*	5.48/ 8.53	June 17, 2009/ October 8, 2009	June 17, 2019/ October 8, 2019
Arthur Wong(3)	*	0.00	December 29, 2011	December 29, 2021
Xisong Tan(4)	*	1.00/ 4.68/ 0.00	December 8, 2007/ April 2, 2010 December 29, 2011	December 8, 2016/ April 2, 2020 December 29, 2021
Other individuals as group	1,513,378	3.97	(5)	(6)

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* 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 US\$5.48 and another portion was granted on October 8, 2009 with an exercise price of US\$8.53.
- (3) The restricted shares were granted on December 29, 2011.
- (4) A portion of the options was granted on December 8, 2006 with an exercise price of US\$6.545 and another portion was granted on April 2, 2010 with an exercise price of US\$4.68. The restricted shares were granted on December 29, 2011.
- (5) Options were granted to other individuals on various dates.
- (6) Other individuals' options expire on various dates.

C. Board Practices

Committees of the Board of Directors

Audit Committee

Our audit committee currently consists of Arthur Wong, Xisong Tan and Yanqing Liang. Our board of directors has determined that each of Arthur Wong, Xisong Tan and Yanqing Liang 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. Wong 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;

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- 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.

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Compensation Committee

Our compensation committee currently consists of Arthur Wong, Xisong Tan and Yanqing Liang. Our board of directors has determined that each of Arthur Wong, Xisong Tan and Yanqing Liang satisfies the independence requirements of Rule 5605(a)(2) of the Nasdaq Listing Rules. Ms. Tan is the chairperson of our compensation committee. 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;
- 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 currently consists of Arthur Wong, Xisong Tan and Yanqing Liang. Our board of directors has determined that each of Arthur Wong, Xisong Tan and Yanqing Liang satisfies the independence requirements of Rule 5605(a)(2) of the Nasdaq Listing Rules. Ms. Tan is the chairman of our corporate governance and nominating committee. 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;

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- 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.

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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;

- 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.

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As of December 31, 2010, 2011 and 2012, we had 867, 829 and 715 full-time employees, respectively. As of December 31, 2012, we had 114 employees in management and administration, 434 in sales and marketing and 167 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\$1.4 million, US\$1.6 million and US\$1.7 million for the years ended December 31, 2010, 2011 and 2012, respectively.

E. Share Ownership

The following table sets forth information with respect to the beneficial ownership of our common shares as of December 31, 2012:

- each of our directors and executive officers; and
- each person known to us to own beneficially more than 5.0% of our common shares.

	Shares Beneficially Owned(1)(2)	
	Number	%
Directors and Executive Officers:		
Limin Li(3)	18,105,967	17.5
Yanqing Liang(4)	4,981,714	4.8
Kit Leong Low(5)	15,331,305	14.8
Yan Wang	*	*
Haijun Liu	*	*
Arthur Wong	*	*
Xisong Tan	*	*
All directors and executive officers as a group(6)	38,724,148	37.4
Principal Shareholders:		
Front Lead Investments Limited(7)	18,105,967	17.5
Milestone I, II and III(8)	6,684,108	6.4

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Massive Sheen Investments Limited(9)	4,981,714	4.8
Focus Media Holding Limited(10)	15,331,305	14.8
Prescott Group Capital Management L.L.C(11)	6,212,880	6.0
Oak Investment Partners XII, L.P.(12)	5,514,918	5.3

* 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 December 31, 2012. Percentage of beneficial ownership of each listed person is based on the common shares outstanding as of March 1, 2013 and the common shares underlying share options exercisable by such person within 60 days of December 31, 2012, totaling 103,764,224 shares.

(3) Includes 17,755,667 common shares owned by Front Lead Investments Limited, a British Virgin Islands company, and 350,000 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, 2012. 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, Georgetown, 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.

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- (4) Includes 4,981,714 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 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.
- (6) Include common shares held by all of our directors and executive officers as a group and common shares issuable upon the exercise of all of the options that are exercisable within 60 days of December 31, 2012 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 6,684,108 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 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.
- (11) Includes 6,212,880 common shares held by Prescott Group Capital Management L.L.C., the mailing address of which is 1924 South Utica, Suite 1120 Tulsa, Oklahoma 74104-6529.
- (12) Includes 5,514,918 common shares held by Oak Investment Partners XII, L.P., the mailing address of which is 525 University Avenue, Suite 1300, Palo Alto, CA 94301, United States of America.

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.

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, 2010, 2011 and 2012.

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 some of our direct investment entities and other local operating partners, such as digital displays and digital television receivers. We sell the advertising equipment to these local operating partners (including our direct investment entities) at negotiated prices and record the sales of advertising equipment as advertising equipment revenue on our financial statements. We had advertising equipment revenue of nil, US\$1.8 million and US\$0.9 million for the years ended December 31, 2010, 2011 and 2012, respectively, of which nil, US\$0.2 million and US\$0.7 million represents the sales of advertising equipment to our direct investment entities in each of these three years.

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We also purchase advertising placement services from our direct investment entities at negotiated prices. For the years ended December 31, 2010, 2011 and 2012, we paid an amount of US\$16.4 million, US\$15.7 million and US\$9.8 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 granted us the exclusive right to sell the advertising time on the mobile digital television network in Shenzhen bus for a term from January 1, 2007 to July 31, 2011. Under the agreement, we paid a pre-determined media cost each year to Shenzhen Mobile. We were 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 was deductible from the rental fees payable by us. The terms of this exclusive agency agreement were negotiated on an arm's length basis. We did not choose to renew the exclusive agency agreement for the buses in with Shenzhen Mobile from September 1, 2011. We had an exclusive agency agreement with Shenzhen Mobile through our acquisition of Digital Media Group in January 2010. This exclusive agency agreement in Shenzhen for subway trains in Line 1, gave 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 31, 2012. We terminated this agreement from September 1, 2011.

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 media cost 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 media cost 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 media cost 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.

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 media cost 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.

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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 media cost 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 media cost 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 media cost 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 media cost 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.

We entered into exclusive agency agreement with Chongqing Jielong Light Rail Advertising Co., Ltd., or Chongqing VisionChina Media Group, in April 2011. This exclusive agency agreement grants us the exclusive right to sell all the advertising time on the television network in Line 2 in Chongqing Light Rail for a term from January 1, 2011 to December 31, 2015. Under the agreement, we pay a pre-determined media cost each year to Chongqing Jielong Light Rail Advertising Co., Ltd. The terms of this exclusive agency agreement have been negotiated on an arm's length basis.

Transactions with Affiliated Companies of Limin Li

Lease and loan with Meidi Zhiye

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We rented office space from Shenzhen Meidi Zhiye Development Co., Ltd., a former equity holder 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\$154,153, US\$216,317 and US\$303,269 in 2010, 2011 and 2012, respectively.

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Transactions with Champs Elysees

In 2010, 2011 and 2012, VisionChina Media Group paid renovation charges of US\$270,864, US\$195,788 and US\$324,544, respectively, to Champs Elysees Renovations Co., Ltd., or Champs Elysees Renovations. In 2010, 2011 and 2012, VisionChina Media Group also paid property management fees and utility expenses of US\$28,702, US\$29,172 and US\$48,274, respectively, to 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 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 equity holders 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 the service fees specified by CDTC in the payment notices it provides to VisionChina Media Group from time to time. The payment notices shall enclose charge lists, setting forth the services provided, the hours spent in performing the services, and the applicable service charge rates. The charge rates, which are annexed to the agreement, may be adjusted pursuant to a supplemental agreement entered into by the parties. If VisionChina Media Group objects to the service fees set forth in a payment notice, both parties shall mutually agree upon the service fees to be paid by VisionChina Media Group. In addition, VisionChina Media Group shall reimburse CDTC for out-of-pocket expenses incurred in connection with providing the services. The service fee shall be calculated using a rate as mutually agreed by CDTC and VisionChina Media Group multiplied by average numbers of LCD screens put into use in the digital mobile television advertising network operated by VisionChina Media Group during each of the calendar year. The term of this agreement is 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.

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 royalty fee equal to 0.2% of the gross annual revenues of VisionChina Media Group. The parties may mutually agree to adjust the royalty fee within the first ten working days of any year during the term of the agreement. 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.

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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 shall operate an out-of-home advertising platform and sell advertisements or value-added-services on that platform, which it may do by setting up joint ventures with third parties or by other feasible means. The cooperation method by which Beijing Eastlong Technology and Beijing Eastlong Advertising engage in business projects shall vary, with Beijing Eastlong Technology either providing technology and consulting services to Beijing Eastlong Advertising, Beijing Eastlong Advertising subcontracting work to Beijing Eastlong Technology, or Beijing Eastlong Technology and Beijing Eastlong Advertising jointly engaging in projects, depending on PRC legal and regulatory requirements, including qualification or licensing requirements, and the requirements of third-party project owners. Under each cooperation method, Beijing Eastlong Technology and Beijing Eastlong Advertising shall receive 90% and 10%, respectively, of the project profits and each shall be reimbursed, as applicable, for its out-of-pocket expenses. Beijing Eastlong Technology shall be the exclusive and sole cooperating partner of Beijing Eastlong Advertising, and Beijing Eastlong Advertising shall not engage in any business other than that it conducts in cooperation with Beijing Eastlong Technology without Beijing Eastlong Technology's prior written consent. 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 (i) by mutual agreement by both parties, (ii) if either party is declared legally bankrupt and the other party requests termination of the engagement, or (iii) if Beijing Eastlong Technology is unable to provide any services to Beijing Eastlong Advertising for 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 equity holders of VisionChina Media Group. The loan can be repaid only with the proceeds from the transfer of the equity interest in VisionChina Media Group by the equity holders to CDTC or to 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, which 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 equity holders of Beijing Eastlong Advertising. This loan can only be repaid by transferring the equity interest in Beijing Eastlong Advertising by the equity holders to Beijing Eastlong Technology or to another person designated by Beijing Eastlong Technology. In the event of a default under this agreement, the non-defaulting party can terminate this agreement.

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 equity holders 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 equity interest in accordance with the option agreement. In the event of a default under this agreement, the non-defaulting party can terminate this agreement.

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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 equity interest 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.

Our PRC legal counsel has advised that it is not stipulated or required in the PRC Property Rights Law whether an equity pledge made before the effectiveness of the PRC Property Rights Law on October 1, 2007 must be registered with the SAIC. Our equity pledge agreement was entered into on February 15, 2007, at which time equity pledges were governed by the then applicable PRC Company Law and PRC Guarantee Law. According to these two PRC laws and regulations, an equity pledge of a limited liability company does not require any registration with the SAIC or its local counterparty, and an equity pledge agreement becomes effective soon after the equity pledge is recorded or filed with a company's Register of Shareholders. Therefore, we consider our pledge agreements effective and enforceable even though we did not register with SAIC or its local counterparty. As of December 31, 2012, we, CDTC and VisionChina Media Group are not required by any government authorities to register with the SAIC, nor are they subject to any penalties or fines. Based on the foregoing, we believe we are not required by the PRC Property Rights Law to register the equity pledge with SAIC and that the equity pledge agreement is enforceable in a PRC court of law.

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

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Our Company and its wholly owned subsidiary, Vision Best Limited, filed a summons with notice in the New York Court on December 27, 2010 against the selling shareholders and former management of Digital Media Group. The summons with notice alleged that the selling shareholders of Digital Media Group (i) engaged in an unlawful scheme to induce us, through false, deceptive, and misleading statements concerning Digital Media Group's financial condition and performance, to pay a grossly inflated price to purchase Digital Media Group in 2010, and (ii) received, or are scheduled to receive, ill-gotten gains from this unlawful scheme. The summons with notice further alleged that we are owed indemnification from an escrow fund, established at the time of the purchase, as a result of breaches of representations and warranties contained in the merger agreement pursuant to which we acquired Digital Media Group (the Merger Agreement). The claims summarized in the summons with notice were set forth in a more detailed complaint we filed on February 2, 2011.

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On February 25, 2011, Gobi Partners, Inc., Gobi Fund, Inc., Gobi Fund II, L.P., Oak Investment Partners XII, L.P., and Thomas Gai Tei Tsao (collectively, the Former Digital Media Group Shareholders) filed a countersuit in the New York Court against us. The complaint in that lawsuit alleges that we breached certain agreements related to the Digital Media Group acquisition by (i) declining to make certain installment payments that the Former Digital Media Group Shareholders claim they were entitled to receive and (ii) declining to take steps to facilitate the transfer of shares of our stock that the Former Digital Media Group Shareholders claim to be entitled to receive in connection with the acquisition of Digital Media Group. The Former Digital Media Group Shareholders also seek specific enforcement of the contracts at issue, compensatory damages in an amount to be determined at trial, and permanent and preliminary injunctive relief compelling us to comply with the parties' agreement. We denied the material allegations of the complaint by the Former Digital Media Group Shareholders and asserted a counterclaim for breach of contract arising from the destruction of Digital Media Group's electronic data prior to delivery to us.

Also on February 25, 2011 the Former Digital Media Group Shareholders filed motions against us for various relief. They sought to dismiss most of the claims in our complaint as well as our counterclaim based on destruction of Digital Media Group's electronic data. They also sought (i) an order of attachment against us in the amount of \$30 million plus interest, on account of a post-closing payment of that amount which the Former Digital Media Group Shareholders alleged to be due, and (ii) an order directing us to transfer assets into the United States to secure a prospective judgment. The Former Digital Media Group Shareholders also filed a motion for a preliminary injunction to compel us to remove the restrictive legend on the ordinary shares received by the Former Digital Media Group Shareholders in connection with the acquisition of Digital Media Group, and to provide consents or authorizations to convert those shares into freely tradable American Depository Shares.

On November 3, 2011 the New York Court decided the pending motions in the above lawsuits. It granted the motion to dismiss our fraud, unjust enrichment and declaratory judgment claims, as well as our breach of contract claim based on the destruction of Digital Media Group's electronic data. The New York Court denied the Former Digital Media Group Shareholders' motion to dismiss our indemnification claim for not less than US\$2,785,633 but granted their motion to attach our assets in the amount of US\$30.0 million plus interest, as security in the event the Former Digital Media Group Shareholders were successful in their monetary claims against us. The ruling also required the Former Digital Media Group Shareholders to file a US\$500,000 undertaking in the event that it is ultimately determined that they were not entitled to the attachment. Finally, the New York Court denied the Former Digital Media Group Shareholders' request to compel us to release the restrictions on the stock certificates they received, noting that any injury they may have suffered as a result of the alleged failure to release those restrictions would be compensable in monetary damages.

On November 11, 2011 we filed an appeal from the New York Court's orders.

On November 21, 2011 the Former Digital Media Group Shareholders filed a motion for partial summary judgment in the New York Court, seeking a judgment against us of US\$60.0 million plus interest for failure to make US\$60.0 million in post-closing payments claimed to be due for the acquisition of Digital Media Group. They also filed a motion to confirm the order of attachment previously entered in the amount of US\$30 million plus interest. On August 13, 2012, the New York State Supreme Court entered an order (the August 13 Order) directing us and Vision Best Limited, on or before August 21, 2012 to (a) transfer US\$60.0 million in assets readily convertible into U.S. currency into New York State, to be held in the custody of the New York City Sheriff's Office, (b) deposit US\$60.0 million into an escrow account controlled by the Sheriff, or (c) make other arrangements satisfactory to the Former Digital Media Group Shareholders in the litigation for security with respect to the final judgment in that amount. We and Vision Best Limited took prompt steps to comply with the August 13 Order and have arranged for the delivery to the Sheriff of more than US\$3.2 million in cash denominated in or convertible to U.S. dollars that were held by or for us or our subsidiaries outside the PRC. With respect to funds held within the PRC in Renminbi, any transfer to the Sheriff in New York requires approval of the relevant authority of the PRC government, the SAFE. Accordingly, on August 20, 2012, the Company applied to the SAFE for such approval, for the transfer of the balance required under the August 13 Order (an amount equivalent to approximately US\$56.8 million). SAFE, however, denied the application.

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At same time as taking steps to comply with the August 13 Order to the extent possible, we have appealed from that order. It sought a stay of enforcement of the August 13 Order, but that request was denied, first by a single judge of the appellate court on August 17, 2012 and then by a full panel of that court on October 2, 2012. We have perfected the appeal from the August 13 Order.

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On October 21, 2012, Former Digital Media Group Shareholders filed a contempt motion in the New York Court against us and Vision Best for failure to transfer US\$60 million into New York State by August 21, 2012 as directed in the August 13 Order.

On January 7, 2013, the New York State Supreme Court issued an order of civil contempt against us that we had failed to comply fully with an August 13, 2012 turnover order requiring us to post security in connection with prejudgment orders of attachment totaling US\$60 million. The turnover order required us to pay that amount to the New York City Sheriff or enter into an escrow of the funds in the People's Republic of China or alternative security arrangement acceptable to plaintiffs. Although we arranged to transfer to the Sheriff most of the assets of its subsidiaries located outside the PRC (almost US\$4.5 million), we had advised the judge that it was not able to transfer additional assets held by its PRC subsidiary because of restrictions of the PRC's State Administration of Foreign Exchange (the SAFE).

On February 19, 2013 the New York State Supreme Court entered a modified order (the February 19 Order), adding to the terms of the August 13 Order the alternative provision that we may deposit in escrow, with the Jun He Law Offices as escrow agent, an amount of Chinese currency equivalent to US\$60 million less the amount currently on deposit of approximately US\$4.5 million with the New York City Sheriff's Office, to be held in escrow until a final judgment in this action or a settlement between the parties resolving the action. However, the Jun He Law Offices have informed the New York Court that they were not willing to serve as escrow agent and the Company had been advised that any escrow of funds to be held in China pursuant to an agreement that contemplates the possibility of ultimate transfer of Chinese currency outside of China requires approval of SAFE. The contempt sanction was a fine of US\$250 plus payment of the plaintiffs' attorneys' fees incurred on the contempt application. The plaintiffs' attorneys' fee was estimated to be US\$282,000 and such amount is fully accrued as of December 31, 2012 and included in accrued expenses and other current liabilities (however, as explained below, the amount actually awarded was US\$185,892.31 in plaintiff's attorney's fee in addition to a US\$250 fine, a total of \$186,142.31). We filed a notice of appeal from that Contempt Order on March 15, 2013

On May 16, 2013, the New York Court ordered us to pay Former Digital Media Group Shareholders US\$250 fine plus plaintiffs' costs and reasonable attorneys' fees in the amount of US\$185,892.31 within fifteen days. We will also continue to vigorously pursue its appeal to revive its affirmative claims against Gobi Partners and Oak Investment Partners for fraud and other relief. However we are unable to predict the ultimate outcome of the matter. We note that our exposure includes the following possible outcomes:

- (a) the Former Digital Media Group Shareholders might obtain a judgment in the amount of US\$60.0 million plus interest;
- (b) the Former Digital Media Group Shareholders might be successful in obtaining (i) an order requiring us to release the restrictive legend on the stock that the Former Digital Media Group Shareholders received in consideration for the acquisition of Digital Media Group or (ii) damages arising out of the failure to remove the restriction; and
- (c) we might not succeed in recovering on our claim with respect to the indemnity escrow, and the Former Digital Media Group Shareholders might succeed in compelling the escrow to be turned over to them.

Although we continue to claim in the pending litigation in the New York Court, and expect to appeal, that no further consideration should be paid to the Former Digital Media Group Shareholders, the consideration provided for in the Merger Agreement has been fully provided for in the consolidated financial statements. In addition, accrued interest of US\$9,368,145 on the unpaid but challenged post-closing consideration of

US\$60.0 million provided for in the Merger Agreement has been recorded and included in accrued expenses and other current liabilities. We have made these provisions because we consider that, unless we succeed on appeal, payment of such amounts is probable based on the November 3, 2011 order of the New York Court. We estimate that the further potential loss that could result from this litigation may be as much as US\$67.0 million as of date of this annual report, but we consider such potential loss merely possible but not probable due to uncertainty. The litigation is still in progress as of May 29, 2013.

Other than as disclosed above, 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.

B. Significant Changes

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

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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. On December 12, 2012, we effected a change of our ADS to common shares ratio from one ADS representing one common share to one ADS representing 20 common shares. For ease of comparison, our ADS trading prices on the Nasdaq Global Market before December 12, 2012 have been retroactively adjusted to reflect this ratio change. 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 May 24, 2013 was US\$2.30 per ADS.

	Market Price Per ADS	
	High	Low
Yearly:		
2008	25.60	4.25
2009	12.27	4.80
2010	11.85	2.51
2011	99.8	21.6
2012	37.20	3.00
Quarterly:		
2011		
First quarter	99.80	75.00
Second quarter	93.60	44.40
Third quarter	59.60	31.60
Fourth quarter	38.80	21.60
2012		
First quarter	37.20	23.00
Second quarter	32.60	14.20
Third quarter	19.40	3.00
Fourth quarter	5.60	3.05
Monthly:		
2012		
November	5.60	4.00
December	4.80	3.05
2013		
January	4.55	3.20
February	4.40	3.50
March	4.00	3.12
April	3.75	2.00
May (through May 24)	2.96	2.20

As of March 31, 2013, a total of 3,189,518 ADSs were outstanding. As of March 31, 2013, a total of 63,790,365 common shares were registered in the name of a nominee of The Bank of New York Mellon, the depositary 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.

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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
- 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.

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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:

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- a dealer in securities or currencies;
- a financial institution;
- 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.

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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 depositary 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.**

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.

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 depositary, 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 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

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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.

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

The 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).

Passive Foreign Investment Company

Based on our financial statements, relevant market data, and the composition of our income and valuation of our assets, including goodwill, we do not believe that we were a PFIC for 2012, 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.

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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. This particular risk may have been heightened due to the recent volatility in the price of our ADSs. Moreover, there exist substantial uncertainties regarding the application of the Code and regulations thereunder with respect to the determination of the character of certain classes of assets. Although we believe we have reasonably applied the Code and regulations thereunder, there can be no assurance that the Internal Revenue Service will follow the same application. 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 2012 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 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.

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.

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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. However, in the event that we are deemed to be a PRC resident enterprise under the PRC tax law and gain from the disposition of the ADSs or common shares is subject to tax in the PRC, if you are eligible for the benefits of the treaty between the United States and the PRC, you may elect to treat such gain as PRC source. If you are not eligible for the benefits of the Treaty or you fail to make the election to treat any gains as PRC source, then 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 such as a corporation. 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.

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.

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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 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.

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 and cash equivalents balance as of December 31, 2012, a 1.0% change in the exchange rates between the Renminbi and the U.S. dollar will result in an increase or decrease of US\$0.3 million for our total amount of cash balance, with a corresponding increase or decrease in accumulated comprehensive income as of December 31, 2012.

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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 RMB400 million (US\$60.6 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 in a period up to two years after it is drawn. The loan, when drawn, will carry a floating interest rate equal to 90% of the People's Bank of China benchmark rate. As of December 31, 2010, we had a loan of US\$60.5 million, which was fully repaid by end of December 30, 2011 under this credit facility.

As of December 31, 2010, we had short-term loans of US\$61.2 million with Macau Branch of Bank of China, which was secured by RMB equivalent of US\$70.1 million pledged with Shenzhen Branch of the Bank of China. The loans carried an annual interest rate of 1.72%, and the pledged deposits carried an annual interest rate of 2.25%, and were repaid by end of October 2011.

In 2011, VisionChina Media Group, one of our consolidated affiliated entities in China, obtained a US\$31.5 million (equivalent to approximately RMB200 million), RMB denominated, secured revolving credit facility from CCB (SZ). This facility is secured by a guarantee issued by a subsidiary of us and is scheduled to expire in June 19, 2012. As of December 31, 2011, we had short-term bank loan of US\$20.5 million under this facility for general corporate working capital purposes. The loan carries a floating interest rate equal to 110% of the People's Bank of China benchmark rate and is fully repayable in full in June 2012.

In June 2012, China Digital Technology (Shenzhen) Co., Ltd, our wholly owned subsidiary, obtained a RMB57 million RMB denominated secured revolving credit facility scheduled to expire on June 24, 2013 granted by Bank of China (Shenzhen branch). This secured credit facility is secured by restricted cash of US\$10.0 million. This secured credit facility is available for general corporate working capital purposes at an interest rate of the Benchmark Rate. As of December 31, 2012, there were outstanding borrowings of RMB57 million under this secured credit facility. The unutilized amount of this secured credit facility was nil as of December 31, 2012.

In January 2013, we entered into another RMB150 million RMB denominated secured revolving credit facility, granted by China Construction Bank (Shenzhen branch) to our variable interest entity, VisionChina Media Group, that is scheduled to expire on January 13, 2014. This revolving credit facility is secured by accounts receivable of VisionChina Media Group. This credit facility is available for general corporate working capital purposes at an interest rate of 160% of the Benchmark Rate. This credit facility contains a restrictive financial covenant of maintaining a leverage ratio of no higher than 65% by VisionChina Media Group. Violation of this financial covenant could result in a default under the this revolving credit facility, which would permit the lending bank to terminate this revolving credit facility and require immediate repayment from us of any outstanding loans advanced.

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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. Historically, we have not been exposed to material risks due to changes in interest rates; however, our future interest income may decrease or interest expense on our borrowings may increase due to changes in market interest rates. We have not used, and do not expect to use in the future, any derivative financial instruments to hedge our interest risk exposure.

Inflation

In recent years, China has not experienced significant inflation, and thus inflation has not had a significant effect on our business historically. According to the National Bureau of Statistics of China, the change in the Consumer Price Index in China was 3.3%, 5.4% and 2.6% in 2010, 2011 and 2012, respectively.

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

D. American Depositary Shares

Depositary Fees

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

Service	Fees
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.

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

Depository fees payable in connection with distributions of cash or securities to ADS holders and the depository services fee are charged by the depository to the holders of record of ADSs as of the applicable ADS record date. The depository 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 depository 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 depository 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 depository 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 depository.

In the event of refusal to pay the depository fees, the depository may, under the terms of the deposit agreement, refuse the requested service until payment is received or may set off the amount of the depository 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 depository. ADS holders will receive prior notice of such changes.

Payments by Depository

In 2012, we did not receive any payments from The Bank of New York Mellon, the depository bank for our ADR program.

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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.

On December 12, 2012, we effected a change of our ADS to common share ratio from one ADS representing one common share to one ADS representing 20 common shares. Each ADS holder of record at the closing business on December 11, 2012 exchanged every 20 then ADSs for one new ADS. There was no change to the rights and preferences of the underlying common shares.

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\$96.7 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 1,150,000 newly issued 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\$16.0 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 December 31, 2012, 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\$32.3 million has been used for general corporate purposes.

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 vice president of finance (principal 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.

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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, 2012 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, 2012 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, 2012 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, 2012.

Attestation Report of the Independent Registered Public Accounting Firm

Our independent registered public accounting firm, Deloitte Touche Tohmatsu, has audited the effectiveness of our internal control over financial reporting as of December 31, 2012, as stated in its report, which appears on pages F-1 of this annual report.

Changes in Internal Control Over Financial Reporting

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There were no changes in our internal control over financial reporting that occurred during the year ended December 31, 2012 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 Arthur Wong qualifies 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 Rule 5605 of the Nasdaq Listing Rules and meet the criteria for independent set forth in Section 10A(m)(3) of the Exchange Act.

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 development officer, vice presidents 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.

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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.

	For the Year Ended December 31,	
	2011	2012
	(US\$)	
Audit Fees(1)	1,250,000	1,270,000
Other Fees		
Total	1,250,000	1,270,000

(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.

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 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, or the 2008 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 the 2008 Share Repurchase 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.

In September 2011, our board of directors approved another share repurchase program, or the 2011 Share Repurchase Program, under which we may repurchase up to US\$15 million worth of our issued and outstanding ADSs from the open market from time to time and before December 31, 2012. During the period from September 1, 2011 to March 31, 2012, we purchased, under the 2011 Share Repurchase Program, 1,062,450 of

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our ADSs in aggregate at an average price of US\$1.73 for a total consideration of approximately US\$1.9 million. 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. All of the repurchased shares had been retired from our outstanding common shares in 2012.

Set for below contains certain information regarding our aforementioned share repurchase programs.

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Period	Total Number of ADSs Purchased Under the Program	Average Price Paid per ADS (US\$)	Approximate Value of ADSs that May Yet be Purchased Under the Program (US\$ in thousands)
2008 Share Repurchase Program			
2008			
December	281,400	5.1360	48,557
2009			
January	23,775	5.4962	48,426
February	2,550	5.5000	48,412
March	346,087	5.4155	46,543
April	286,568	5.3827	45,000
Total	940,380	5.3241	45,000
2011 Share Repurchase Program			
2011			
September	763,250	1.8215	13,610
October	299,200	1.4866	13,165
Total	1,062,450	1.7272	13,165

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.

ITEM 16H. MINE SAFETY DISCLOSURE

Not applicable.

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, 2011 and 2012

- Consolidated Statements of Operations for the years ended December 31, 2010, 2011 and 2012

- Consolidated Statements of Comprehensive Income/(Loss) for the years end December 31, 2010, 2011 and 2012.

- Consolidated Statements of Changes of Equity for the years ended December 31, 2010, 2011 and 2012

- Consolidated Statements of Cash Flows for the years ended December 31, 2010, 2011 and 2012

- Notes to the Consolidated Financial Statements

- Condensed Financial Information of Registrant Schedule I

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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 (incorporated by reference to Exhibit 10.1 from our F-1 registration statement (File No. 333-147275), as amended, initially filed with the Commission on November 9, 2007)

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Exhibit Number	Description of Document
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)
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 (File No. 333-147275), as amended, initially filed with the Commission on November 9, 2007)
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)

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Exhibit Number	Description of Document
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 (incorporated by reference to Exhibit 4.22 from our annual report on Form 20-F (File No. 001- 33821), as amended, initially filed with the Commission on June 23, 2010)
4.23	Registration Rights Agreement dated as of November 16, 2009 among VisionChina Media Inc. and the investors signatories thereto (incorporated by reference to Exhibit 4.23 from our annual report on Form 20-F (File No. 001- 33821), as amended, initially filed with the Commission on June 23, 2010)
4.24	Translation of RMB Loan Agreement, dated as of December 3, 2009, between VisionChina Media Group Inc., and Bank of China, Shenzhen Branch (incorporated by reference to Exhibit 4.24 from our annual report on Form 20-F (File No. 001- 33821), as amended, initially filed with the Commission on June 23, 2010)
4.25	Translation of Guarantee Contract between VisionChina Digital Company and Bank of China Shenzhen Branch (incorporated by reference to Exhibit 4.25 from our annual report on Form 20-F (File No. 001- 33821), as amended, initially filed with the Commission on June 23, 2010)
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 (incorporated by reference to Exhibit 4.26 from our annual report on Form 20-F (File No. 001- 33821), as amended, filed with the Commission on June 27, 2011)
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. (incorporated by reference to Exhibit 4.27 from our annual report on Form 20-F (File No. 001-33821), as amended, filed with the Commission on June 27, 2011)
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 (incorporated by reference to Exhibit 4.28 from our annual report on Form 20-F (File No. 001-33821), as amended, filed with the Commission on January 21, 2011)
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*	Principal Financial Officer 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*	Principal Financial Officer Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
23.1*	Consent of Independent Registered Public Accounting Firm
101.INS**	XBRL Instance Document
101.SCH**	XBRL Taxonomy Extension Schema Document
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB**	XBRL Taxonomy Extension Label Linkbase Document
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF**	XBRL Taxonomy Extension Definition Linkbase Document

* Filed with this annual report

** XBRL (eXtensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act, is deemed not filed for purposes of Section 18 of the Exchange Act, and otherwise is not subject to liability under these sections.

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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: May 30, 2013

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VISIONCHINA MEDIA INC.

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REPORT OF 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 entities (the Company) as of December 31, 2012, 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, 2012, based on the criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

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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, 2012 of the Company, and our report dated May 30, 2013 expressed an unqualified opinion on those consolidated financial statements and financial statement schedule.

/s/ Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Certified Public Accountants

Hong Kong

May 30, 2013

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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 entities (the Company) as of December 31, 2011 and 2012, and the related consolidated statements of operations, comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2012 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, 2011 and 2012, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2012, 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.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the consolidated financial statements, the Company has suffered recurring losses from operations that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As discussed in Note 2 to the consolidated financial statements, such statements have been adjusted for the retrospective application of the authoritative guidance regarding the presentation of comprehensive income, which was adopted by the Group on January 1, 2012.

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, 2012, 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 May 30, 2013 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Certified Public Accountants

Hong Kong

May 30, 2013

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VISIONCHINA MEDIA INC.

CONSOLIDATED BALANCE SHEETS

(Amounts in U.S. Dollars (\$), except number of shares)

	Notes	December 31,	
		2011	2012
ASSETS			
Current Assets:			
Cash and cash equivalents		\$ 80,309,629	\$ 29,012,381
Restricted cash		3,305,889	14,533,235
Accounts receivable, net of allowance for doubtful accounts of \$4,427,016 and \$9,414,581 as of December 31, 2011 and 2012, respectively	4	66,284,254	36,743,469
Amounts due from related parties	20(a)	2,444,076	2,104,416
Prepaid expenses and other current assets	5	34,278,153	26,807,894
Total current assets		\$ 186,622,001	\$ 109,201,395
Non-current Assets:			
Fixed assets, net	6	13,637,752	10,782,166
Goodwill	7	141,406,456	
Intangible assets, net	8	39,537,180	366,691
Investments under equity method	9	7,200,301	7,304,745
Other investments	10	3,020,677	3,045,221
Long-term prepayments and deposits	11	19,896,185	17,536,605
Restricted cash		1,101,963	1,114,515
Deferred tax assets	15	2,718,167	443,981
Total non-current assets		\$ 228,518,681	\$ 40,593,924
TOTAL ASSETS		\$ 415,140,682	\$ 149,795,319
LIABILITIES AND EQUITY			
Current Liabilities:			
Short-term bank loans (including short-term bank loans of the consolidated variable interest entities (VIEs) without recourse to VisionChina Media Inc. (the Company) of \$20,465,028 and nil as of December 31, 2011 and 2012, respectively)	12	\$ 20,465,028	\$ 8,998,429
Accounts payable (including accounts payable of the consolidated VIEs without recourse to the Company of \$14,130,377 and \$5,940,292 as of December 31, 2011 and 2012, respectively)		16,148,736	7,743,867
Amounts due to related parties (including amounts due to related parties of the consolidated VIEs without recourse to the Company of \$1,336,814 and \$1,634,416 as of December 31, 2011 and 2012, respectively)	20(b)	1,415,681	1,828,412
Consideration payable (including consideration payable of the consolidated VIEs without recourse to the Company of \$ nil and nil as of December 31, 2011 and 2012, respectively)	3	64,000,000	64,000,000
Income tax payable (including income tax payable of the consolidated VIEs without recourse to the Company of \$117,635 and \$23,755 as of December 31, 2011 and 2012, respectively)		117,635	23,755
	13	18,814,550	26,211,259

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Accrued expenses and other current liabilities (including accrued expenses and other current liabilities of the consolidated VIEs without recourse to the Company of \$12,217,882 and \$12,763,055 as of December 31, 2011, and 2012, respectively)			
Total current liabilities		\$ 120,961,630	\$ 108,805,722
Non-current Liabilities:			
Deferred tax liabilities (including deferred tax liabilities of the consolidated VIEs without recourse to the Company of \$338,106 and nil as of December 31, 2011, and 2012, respectively)	15	\$ 9,808,291	\$
Other non-current liability		968,780	976,651
Total non-current liabilities		10,777,071	976,651
Total liabilities		\$ 131,738,701	\$ 109,782,373
Commitments and contingencies	18		
Equity			
Common shares (\$0.0001 par value; 200,000,000 shares authorized; 101,313,015 and 101,366,544 shares issued and outstanding as of December 31, 2011 and 2012, respectively)	14	\$ 10,131	\$ 10,137
Additional paid-in capital		341,963,008	342,670,656
Accumulated deficit		(93,729,215)	(340,138,407)
Accumulated other comprehensive income		34,940,445	37,371,672
Total VisionChina Media Inc. shareholders equity		\$ 283,184,369	\$ 39,914,058
Noncontrolling interest		217,612	98,888
Total equity		283,401,981	40,012,946
TOTAL LIABILITIES AND EQUITY		\$ 415,140,682	\$ 149,795,319

The accompanying notes are an integral part of these consolidated financial statements.

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VISIONCHINA MEDIA INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Amounts in U.S. Dollars (\$), except number of shares)

	Notes	2010	Year ended December 31,	
			2011	2012
Revenues:				
Third-parties:				
Advertising service revenue		\$ 138,056,640	\$ 179,415,668	\$ 114,741,386
Advertising equipment revenue			1,558,764	178,914
		138,056,640	180,974,432	114,920,300
Related parties:				
Advertising equipment revenue	20(c)		219,918	747,550
Total revenues		\$ 138,056,640	\$ 181,194,350	\$ 115,667,850
Cost of revenues:				
Third-parties:				
Advertising service cost		121,000,454	127,057,954	121,374,431
Advertising equipment cost			1,339,536	125,458
		121,000,454	128,397,490	121,499,889
Related parties:				
Advertising equipment cost			154,491	219,833
Total cost of revenues		121,000,454	128,551,981	121,719,722
Gross profit (loss)		17,056,186	52,642,369	(6,051,872)
Operating expenses:				
Selling and marketing expenses		28,315,592	44,916,460	42,979,527
General and administrative expenses		9,499,717	13,207,064	18,676,539
Impairment loss on intangible assets and goodwill	7 & 8	145,720,504		178,814,411
Contingent loss in connection with a litigation	18(c)		3,375,000	5,993,145
Other operating expenses			2,140,655	
Total operating expenses		183,535,813	63,639,179	246,463,622
Government grant				756,757
Share of (losses) profits from equity method investees		(109,989)	230,280	45,509
Dividend income from other investments	10		142,265	162,100
Gain on disposal of equity interest in a subsidiary	1		175,903	
Operating loss		(166,589,616)	(10,448,362)	(251,551,128)
Interest income		2,082,605	1,711,117	696,292
Interest expense		(4,952,239)	(4,716,577)	(2,614,543)
Other expenses			42,153	(605,958)
Net loss before income taxes		(169,459,250)	(13,411,669)	(254,075,337)
Income tax benefits	15	18,202,289	793,415	7,547,421
Net loss		(151,256,961)	(12,618,254)	(246,527,916)
Net (income) loss attributable to noncontrolling interest		(81,261)	114,962	118,724
Net loss attributable to VisionChina Media Inc. shareholders		\$ (151,338,222)	\$ (12,503,292)	\$ (246,409,192)

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Net loss per share:				
Basic	2(s)	\$	(1.83)	\$ (0.12) \$ (2.43)
Diluted		\$	(1.83)	\$ (0.12) \$ (2.43)
Weighted average shares used in computation of net loss per share:				
Basic			82,739,234	102,047,414 101,351,222
Diluted			82,739,234	102,047,414 101,351,222
Share-based compensation expenses during the related periods included in:				
Cost of revenues		\$	100,711	\$ 58,836 \$ 52,824
Selling and marketing expenses			432,632	447,767 394,719
General and administrative expenses			414,162	311,070 221,111

The accompanying notes are an integral part of these consolidated financial statements.

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VISIONCHINA MEDIA INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in U.S. Dollars (\$), except number of shares)

	2010	Year ended December 31, 2011	2012
Net loss	\$ (151,256,961)	\$ (12,618,254)	\$ (246,527,916)
Other comprehensive income, net of tax:			
Change in cumulative foreign currency translation adjustments	11,568,199	12,872,968	2,431,227
Total comprehensive (loss) income	139,688,762	254,714	(244,096,689)
Comprehensive (income) loss attributable to the noncontrolling interests	(81,261)	114,962	118,724
Total comprehensive (loss) income attributable to VisionChina Media Inc.	\$ (139,770,023)	\$ 369,676	\$ (243,977,965)

The accompanying notes are an integral part of these consolidated financial statements.

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VISIONCHINA MEDIA INC.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Amounts in U.S. Dollars (\$), except number of shares)

	Common shares Number	Common shares Amount	Additional paid-in capital	Accumulated (deficit) profit	Accumulated other comprehensive income	Total Vision China Media Inc. shareholders equity	Non- controlling interest	Total
Balance as of January 1, 2010	72,140,684	\$ 7,214	\$ 192,362,565	\$ 70,112,299	\$ 10,499,278	\$ 272,981,356	\$ 434,358	\$ 273,415,714
Shares issued for DMG Acquisition (as defined in Note 3)	8,476,013	848	67,566,538			67,567,386		67,567,386
Shares issued to certain subscribers (Note 14)	4,006,474	401	12,900,846			12,901,247		12,901,247
Noncontrolling interest acquired in DMG Acquisition							2,403	2,403
Exercise of share options	202,800	20	157,513			157,533		157,533
Restricted shares	68,917	7	(7)					
Share-based compensation			947,505			947,505		947,505
Dividend paid to a noncontrolling shareholder							(50,492)	(50,492)
Foreign currency translation adjustment					11,568,199	11,568,199		11,568,199
Net (loss) income				(151,338,222)		(151,338,222)	81,261	(151,256,961)
Balance as of December 31, 2010	84,894,888	\$ 8,490	\$ 273,934,960	\$ (81,225,923)	\$ 22,067,477	\$ 214,785,004	\$ 467,530	\$ 215,252,534
Shares issued to certain subscribers (Note 14)	17,375,479	1,737	68,995,004			68,996,741		68,996,741
Shares repurchases	(1,062,450)	(106)	(1,877,459)			(1,877,565)		(1,877,565)
Exercise of share options	88,334	8	92,832			92,840		92,840
Restricted shares	16,764	2	(2)					
Share-based compensation			817,673			817,673		817,673
Disposal of equity interest in a subsidiary							(134,956)	(134,956)
Foreign currency translation adjustment					12,872,968	12,872,968		12,872,968
Net loss				(12,503,292)		(12,503,292)	(114,962)	(12,618,254)
Balance as of December 31, 2011	101,313,015	\$ 10,131	\$ 341,963,008	\$ (93,729,215)	\$ 34,940,445	\$ 283,184,369	\$ 217,612	\$ 283,401,981
Exercise of share options	39,100	4	38,996			39,000		39,000
Restricted shares	14,429	2	(2)					
Share-based compensation			668,654			668,654		668,654
Foreign currency transaction adjustment					2,431,227	2,431,227		2,431,227
Net loss				(246,409,192)		(246,409,192)	(118,724)	(246,527,916)

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Balance as of															
December 31, 2012	101,366,544	\$	10,137	\$	342,670,656	\$	(340,138,407)	\$	37,371,672	\$	39,914,058	\$	98,888	\$	40,012,946

The accompanying notes are an integral part of these consolidated financial statements.

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VISIONCHINA MEDIA INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in U.S. Dollars (\$), except number of shares)

	Notes	For the year ended December 31,		
		2010	2011	2012
Cash flows from operating activities:				
Net loss		\$ (151,256,961)	\$ (12,618,254)	\$ (246,527,916)
Adjustments to reconcile net loss to net cash used in operating activities:				
Allowance for doubtful accounts	4	585,502	3,067,349	4,951,593
Depreciation and amortization		16,410,245	10,875,940	7,772,392
Impairment loss on intangible assets and goodwill		145,720,504		178,814,411
Loss on disposal of fixed assets		61,056	3,162	169,484
Gain on disposal of equity interest in a subsidiary			(175,903)	
Share of losses (profits) from equity method investees		109,989	(230,280)	(45,509)
Share-based compensation		947,505	817,673	668,654
Finance cost on consideration payable		664,246	368,682	5,993,145
Deferred tax		(18,008,959)	(956,260)	(7,673,154)
Changes in operating assets and liabilities:				
Accounts receivable		(9,237,956)	(16,512,238)	25,091,818
Amounts due from related parties		1,307,017	505,073	359,519
Prepaid expenses and other current assets		(13,676,430)	(10,328,029)	10,213,637
Accounts payable		7,484,947	2,364,875	(8,536,087)
Accrued expenses and other current liabilities		(1,686,546)	5,791,432	1,250,684
Amounts due to related parties		811,541	(407,954)	401,228
Income tax payable		(2,446,445)	(182,326)	(94,836)
Net cash used in operating activities		\$ (22,210,745)	\$ (17,617,058)	\$ (27,190,937)
Cash flows from by investing activities:				
Settlements of consideration payable	3	\$ (68,509,178)	\$ (1,321,189)	\$
Net cash inflow from acquisition of subsidiaries	3	3,840,983		
Acquisitions of fixed assets		(3,435,173)	(2,300,424)	(1,801,722)
Acquisitions of intangible assets		(133,095)		(109,065)
Restricted cash		38,607,862	68,831,080	(11,204,082)
Investment in other investments			(157,423)	
Net cash flow from disposal of equity interest in a subsidiary			72,580	
Net cash (used in) provided by investing activities		\$ (29,628,601)	\$ 65,124,624	\$ (13,114,869)
Cash flows from financing activities:				
Proceeds from bank loans		78,181,484	20,465,028	31,851,581
Repayment of bank loans		(42,849,029)	(123,812,507)	(43,484,471)
Proceeds from issuance of common shares		12,901,247	68,996,741	
Proceeds from exercise of share options		157,533	92,840	39,000
Share repurchases			(1,877,565)	
Dividend paid to a noncontrolling shareholder		(50,492)		
Net cash provided by (used in) financing activities		\$ 48,340,743	\$ (36,135,463)	\$ (11,593,890)

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Effect of changes in exchange rate		1,875,852		1,726,190		602,448
Net (decrease) increase in cash and cash equivalents						
	\$	(1,622,751)	\$	13,098,293	\$	(51,297,248)
Cash and cash equivalents at the beginning of the year		68,834,087		67,211,336		80,309,629
Cash and cash equivalents at the end of the year	\$	67,211,336	\$	80,309,629		29,012,381
Supplemental disclosure of cash flow information:						
Income taxes paid	\$	2,253,115	\$	329,907	\$	220,569
Interest paid		4,397,583		4,347,895		2,140,197
Non-cash investing and financing activities:						
Shares issued as part of consideration for acquisition of subsidiaries (Note 3)	\$	67,567,386	\$		\$	

The accompanying notes are an integral part of these consolidated financial statements.

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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, its subsidiaries and variable interest entities (VIEs) (collectively, 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 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 VIE, VisionChina Media Group Limited (VisionChina Media Group) and VisionChina Media Group's subsidiaries and investees. VisionChina Media Group was established under the laws of the PRC on April 8, 2005.

In January 2010, pursuant to an agreement entered into between the Company and Digital Media Group Company Limited (DMG), the Company acquired a 100% equity interest in DMG, which sells advertising time on its out-of-home digital television networks in the PRC's subway.

DMG was incorporated under the laws of the British Virgin Islands on May 13, 2003. DMG, its subsidiaries and VIE sell advertising time on its out-of-home digital television networks in the PRC and provide passenger information and direction system (PIDS) in the PRC. DMG does not conduct any substantive operations of its own, but conducts its primary business through its wholly-owned subsidiaries, DMG (HK) Co., Limited (DMG HK), Beijing Eastlong Technology Development Co., Ltd. (Eastlong Technology), Eastlong Technology's VIE, Beijing Eastlong Advertising Co., Ltd. (Eastlong Advertising), and Eastlong Advertising's subsidiaries and equity investees.

The VIEs contractual arrangements

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 and Eastlong Advertising, which are PRC legal entities established by co-founders of the Company and DMG, respectively.

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Applicable PRC laws and regulations prohibit foreign investment in and ownership of mobile advertising agencies. As a Cayman Islands corporation, the Company is deemed a foreign legal person under PRC laws.

To provide the Company with effective control over the two VIEs, namely VisionChina Media Group and Eastlong Advertising, and the ability to receive substantially all of the economic benefits of the VIEs and their subsidiaries, a series of contractual arrangements were entered amongst:

- CDTC, VisionChina Media Group and direct equity holders of VisionChina Media Group; and
- Eastlong Technology, Eastlong Advertising and direct equity holders of Eastlong Advertising.

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VISIONCHINA MEDIA INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in U.S. Dollars (\$), except number of shares)

1. ORGANIZATION AND PRINCIPAL ACTIVITIES - continued

Agreements that transfer economic benefits to CDTC and Eastlong Technology:

Technology and management services 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 the service fees specified by CDTC in the payment notices it provides to VisionChina Media Group from time to time. The payment notices shall enclose charge lists, setting forth the services provided, the hours spent in performing the services, and the applicable service charge rates. The charge rates, which are annexed to the agreement, may be adjusted pursuant to a supplemental agreement entered into by the parties. If VisionChina Media Group objects to the service fees set forth in a payment notice, both parties shall mutually agree upon the service fees to be paid by the VisionChina Media Group. In addition, VisionChina Media Group shall reimburse the WFOE for out-of-pocket expenses incurred in connection with providing the services to CDTC. The service fee shall be calculated using a rate as mutually agreed by CDTC and VisionChina Media Group multiplied by average numbers of screens put into use in the digital mobile television advertising network operated by VisionChina Media Group during each of the calendar year. The term of this agreement is 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.

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, in exchange for a royalty fee equal to 0.2% of the gross annual revenues of VisionChina Media Group. The parties may mutually agree to adjust the royalty fee within the first ten working days of any year during the term of the agreement. 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

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Pursuant to the business cooperation agreement entered into on February 22, 2005 between Eastlong Technology and Eastlong Advertising, Eastlong Advertising shall operate an out-of-home advertising platform and selling advertisements or value added services on that platform, which it may do by setting up joint ventures with third parties or by other feasible means. The cooperation method by which Eastlong Technology and Eastlong Advertising engage in business projects shall vary, with Eastlong Technology either providing technology and consulting services to Eastlong Advertising, Eastlong Advertising subletting work to Eastlong Technology, or Eastlong Technology and Eastlong Advertising jointly engaging in projects, depending on PRC legal and regulatory requirements, including qualification or licensing requirements, and the requirements of third-party project owners. Under each cooperation method, Eastlong Technology and Eastlong Advertising shall receive 90% and 10%, respectively, of the project profits and each shall be reimbursed, as applicable, for its out-of-pocket expenses. Eastlong Technology shall be the exclusive and sole cooperating partner of Eastlong Advertising, and Eastlong Advertising shall not engage in any business other than that it conducts in cooperation with Eastlong Technology without Eastlong Technology's prior written consent. The term of this agreement commences on February 22, 2005 and remains in effect unless Eastlong Technology ceases to exist. This agreement can be terminated if (i) by mutual agreement by both parties (ii) if either party is declared legally bankrupt and the other party requests termination of the agreement or (iii) Eastlong Technology is unable to provide any services to Eastlong Advertising for more than three consecutive years due to force majeure.

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VISIONCHINA MEDIA INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in U.S. Dollars (\$), except number of shares)

1. ORGANIZATION AND PRINCIPAL ACTIVITIES - continued

Agreements that transfer economic benefits to CDTC and Eastlong Technology: - continued

Business Cooperation Agreement - continued

CDTC and Eastlong Technology historically agreed to waive the obligation of the respective VIEs to pay their service and royalty fees because (i) the Group determined to retain funds in the respective VIEs for network expansion and media asset acquisition in China and (ii) each of the VIEs was still in accumulated net loss position in accordance with U.S. GAAP. The WFOE and VIEs mutually agreed on the terms of the fee waivers and such fee waivers have been approved by the respective board of directors of CDTC and VisionChina Media Group.

The service agreements (namely, the technology and management services agreement, the domain name license agreement and the business cooperation agreement) are renewable by CDTC or Eastlong Technology, as applicable, at its discretion. The technology and management services agreement and the domain name license agreement require mutual consent for any adjustments to the fee under the respective agreements. Given the structure of the Company and its control over the VIEs as explained below, the mutual consent requirement is non-substantive and the Company effectively maintains the ability to determine the amount and timing of fees charged of the service agreements so that substantially all of the profits of the VIEs can be transferred to CDTC or Eastlong Technology. The above service agreements can convey substantially all of the economic benefits of the VIEs to CDTC and Eastlong Technology because CDTC and Eastlong Technology can unilaterally determine the amount and timing of the fees charged.

The Company has the power to direct the activities of VIEs that most significantly impact VIEs' economic performance, such as (1) determining pricing for advertising services, (2) hiring and conducting performance evaluations of employees, (3) managing sales activities, (4) conducting marketing activities, (5) establishing the policy for payment of cash from the VIEs to the WFOEs, including determination of the amount of the fees to be paid under the agreements between the VIEs and the WFOEs, and (6) determining whether to expand or terminate advertising platforms. As further described below, Mr. Limin Li and Ms. Yanqing Liang, the direct equity holders of VisionChina Media Group, has each signed an irrevocable proxy letter pursuant to which he/she has granted CDTC the right to exercise all of his/her voting rights as an equity holder of VisionChina Media Group. The proxy letters provide the Company with the ability to control and exercise the voting and governance rights that the equity holders of VisionChina Media Group would otherwise possess through their equity ownership interests in VisionChina Media Group Limited. In addition, as further described below, the option agreements also provide the Company with the ability to control and exercise the voting and governance rights of the equity holders of VisionChina Media Group Limited and Eastlong Advertising by having CDTC and Eastlong Technology exercise their substantive kick out rights to replace the equity holders of these consolidated affiliated entities. The terms of the option agreements are currently exercisable and legally enforceable under current PRC laws and regulations. A simple majority vote of the Company's board of directors is required to pass a resolution to exercise the Company's kick-out rights under the option agreements, and no

consent of the VIEs' equity holders is required. The board of directors of the Company comprises five directors, including Mr. Limin Li and Ms. Yanqing Liang, and therefore Mr. Limin Li and Ms. Yanqing Liang do not have veto power over such majority vote. The Company's right under the option agreements gives the Company the power to control the equity holders of the VIEs and thus the power to direct the activities that most significantly impact the VIEs' economic performance.

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VISIONCHINA MEDIA INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in U.S. Dollars (\$), except number of shares)

1. ORGANIZATION AND PRINCIPAL ACTIVITIES - continued

Agreements that provide Company effective control over VisionChina Media Group and Eastlong Advertising:

Loan Agreements

CDTC entered into a loan agreement and amendments thereto with Mr. Limin Li and Ms. Yanqing Liang, direct equity holders of VisionChina Media Group, on March 30, 2006 and February 15, 2007, which allows the Company to capitalize the PRC operating affiliates in VisionChina Media Group and facilitates the establishment of the current corporate structure in VisionChina Media Group. CDTC made an interest-free loan of RMB50 million to the direct equity holders of VisionChina Media Group. The loan can be repaid only with the proceeds from the transfer of equity interest in VisionChina Media Group owned by the direct equity holders to CDTC or to 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.

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

Proxy Letter

Mr. Limin Li and Ms. Yanqing Liang, direct equity holders of VisionChina Media Group, signed certain proxy letters on February 15, 2007, pursuant to which Mr. Limin Li and Ms. Yanqing Liang have granted an employee of CDTC, who is a PRC citizen, the right to exercise all their voting rights as equity holders of VisionChina Media Group as provided under its articles of association, including the right to appoint and elect board members and senior management members of VisionChina Media Group. 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 Agreements

CDTC, Mr. Limin Li and Ms. 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 Mr. Limin Li and Ms. 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 equity interests in accordance with the option agreement. In the event of a default under this agreement, the non-defaulting party can terminate this agreement.

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VISIONCHINA MEDIA INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in U.S. Dollars (\$), except number of shares)

1. ORGANIZATION AND PRINCIPAL ACTIVITIES - continued

Agreements that provide Company effective control over VisionChina Media Group and Eastlong Advertising: - continued

Option Agreements - continued

Eastlong Technology, Mr. Qijun Men and Mr. Haifeng Wang entered into a series of option agreements and amendments thereto in February 2005, March 2007 and May 2008, respectively, pursuant to which Eastlong Technology has an exclusive option to purchase, or to designate another qualified person to purchase, to the extent permitted by the PRC law and foreign investment policies, all of the equity interests in Eastlong Advertising owned by Mr. Qijun Men and Mr. 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 equity interests in accordance with the option agreements.

The above contractual arrangements allow the Group to have (1) the power to direct the activities of VisionChina Media Group, Eastlong Advertising and their subsidiaries that most significantly affect their economic performance and (2) the obligation to absorb losses of, or the right to receive benefits from VisionChina Media Group, Eastlong Advertising and their subsidiaries. Accordingly, the Group treats VisionChina Media Group and Eastlong Advertising as VIEs. Because the Group is the primary beneficiary of VisionChina Media Group and Eastlong Advertising, the Group has effectively control on and consolidated the financial results of VisionChina Media Group and Eastlong Advertising and their subsidiaries.

Risks in relation to the VIEs structure

The Group believes that the VIEs arrangements are in compliance with PRC law and are legally enforceable. The equity holders of VisionChina Media Group are also shareholders of the Group and therefore have no current interest in seeking to act contrary to the contractual arrangements. However, there are certain risks related to the VIE arrangements, which include but are not limited to the following:

- If the ownership structure and contractual arrangements are found to be in violation of any existing or future PRC laws or regulations, the Group could be subject to severe penalties;

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- The Group relies on contractual arrangements with the VIEs and their equity holders for substantially all of its PRC operations, which may not be as effective as direct ownership in providing operational control; and
- The Group may have to incur significant cost to enforce, or may not be able to effectively enforce, the contractual arrangements with the VIEs and their equity holders in the event of a breach or non-compliance by the VIEs or their equity holders.

In particular, if the Company's ownership structure and contractual arrangements were found to be in violation of PRC laws or regulations, the PRC government could:

- revoke the business and operating licenses of the Company's PRC subsidiaries, the VIEs and the VIEs' subsidiaries;
- discontinue or restrict the operations of any related-party transactions among the Company's PRC subsidiaries, the VIEs and the VIEs' subsidiaries;
- impose fines, confiscate the income of the VIEs or the VIEs' subsidiaries, or impose other requirements with which the Company's PRC subsidiaries, the VIEs or the VIEs' subsidiaries may not be able to comply;
- shut down the network of the VIEs and the VIEs' subsidiaries; or
- require the Company or the Company's PRC subsidiaries, the VIEs and the VIEs' subsidiaries to restructure their ownership structure or operations.

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VISIONCHINA MEDIA INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in U.S. Dollars (\$), except number of shares)

1. ORGANIZATION AND PRINCIPAL ACTIVITIES - continued

Risks in relation to the VIEs structure - continued

The Company's ability to conduct its advertising business may be negatively affected if the PRC government were to carry out any of the aforementioned action, or if the VIEs or their equity holders breach or do not comply with the contractual arrangements. As a result, the Company may not be able to consolidate the VIEs and the VIEs' subsidiaries in its consolidated financial statements as it may lose the ability to exert effective control over the VIEs and the VIEs' subsidiaries, and it may lose the ability to receive economic benefits from the VIEs and the VIEs' subsidiaries.

Mr. Limin Li and Ms. Yanqing Liang are the shareholders of VisionChina Media Group Limited and they are also beneficial owners of the Company. The interests of Mr. Limin Li and Ms. Yanqing Liang as the beneficial owners of VisionChina Media Group Limited may differ from the interests of the Company as a whole, since Mr. Limin Li and Ms. Yanqing Liang are also beneficial shareholders of the Company. The Company cannot assure that when conflicts of interest arise, Mr. Limin Li and Ms. Yanqing Liang will act in the best interests of the Company or that conflicts of interests will be resolved in the Company's favor. Currently, the Company does not have existing arrangements to address potential conflicts of interest Mr. Limin Li and Ms. Yanqing Liang may encounter in their capacity as beneficial owners and directors of VisionChina Media Group Limited, on the one hand, and as a beneficial owner and director of the Company. Mr. Limin Li and Ms. Yanqing Liang signed irrevocable proxy letters, pursuant to which Mr. Limin Li and Ms. Yanqing Liang have granted CDTC the right to exercise all their voting rights as equity holders of VisionChina Media Group. The Company believes Mr. Limin Li and Ms. Yanqing Liang will not act contrary to any of the contractual arrangements, and the exclusive option agreement provides the Company with a mechanism to remove Mr. Limin Li and Ms. Yanqing Liang as beneficial shareholders of VisionChina Media Group Limited should they act to the detriment of the Company. The Company relies on Mr. Limin Li, as a director and executive officer of the Company, and Ms. Yanqing Liang, as a director of the Company, to fulfill their fiduciary duties and abide by laws of the PRC and Cayman Islands and act in the best interest of the Company. If the Company cannot resolve any conflicts of interest or disputes between the Company and Mr. Limin Li and Ms. Yanqing Liang, the Company would have to rely on legal proceedings, which could result in disruption of its business, and there is substantial uncertainty as to the outcome of any such legal proceedings.

The Company has two VIEs, VisionChina Media Group and Eastlong Advertising, which it has consolidated under the authoritative literature because it is the primary beneficiary of these VIEs. Since the Company, through its subsidiaries, has (1) the power to direct the activities of the VIEs that most significantly affect the VIEs' economic performance and (2) the right to receive benefits from the VIE, the Company has continued to consolidate the VIEs upon the adoption of the new guidance, which, other than for additional disclosures, has no accounting impact on the Company's consolidated financial statements.

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The VIEs contributed an aggregate of 99.5%, 98.3% and 99.3% of the Group's consolidated net revenues derived from third parties and non-consolidated affiliates for the years ended December 31, 2010, 2011 and 2012, respectively. The Group's operations not conducted through contractual arrangements with the VIEs primarily consist of (1) sales of Passenger Information and Direction Systems to various subway companies in the PRC, (2) sales of equipment used for mobile digital television on mass transit systems, and (3) advertising revenue on advertising platforms located outside of the PRC. In the fiscal years ended December 31, 2010, 2011 and 2012, the Company and its subsidiaries (excluding operations that are subject to involvement with the consolidated affiliated entities) contributed in aggregate approximately 0.5%, 1.7% and 0.7%, respectively, of the Group's total consolidated net revenues derived from third parties and non-consolidated affiliates. As of December 31, 2010, 2011 and 2012, the VIEs accounted for an aggregate of 65.7%, 80.2% and 77.4%, respectively, of the Group's consolidated total assets. As of December 31, 2010, 2011 and 2012, the Company and its subsidiaries accounted for an aggregate of 34.3%, 19.8% and 22.6%, respectively, of the Company's total assets (excluding for the purpose of this calculation assets that are subject to involvement with the consolidated affiliated entities).

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VISIONCHINA MEDIA INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in U.S. Dollars (\$), except number of shares)

1. ORGANIZATION AND PRINCIPAL ACTIVITIES - continued**Risks in relation to the VIEs structure - continued**

The financial information of the Company's VIEs and VIEs' subsidiaries as of December 31, 2011 and 2012 and for the years ended December 31, 2010, 2011 and 2012 is as follows:

		December 31,	
		2011	2012
Total assets	\$	438,643,462	\$ 243,911,518
Total liabilities		492,507,843	502,598,211

		Year ended December 31,		
		2010	2011	2012
Net revenues	\$	138,056,640	\$ 199,622,163	114,839,319
Net loss		(110,259,691)	(2,762,658)	(204,191,346)
Net cash provided by (used in) operating activities		1,760,983	57,162,780	(13,419,077)
Net cash (used in) provided by investing activities		(55,717,423)	(1,664,123)	2,665,801
Net cash used in financing activities		(58,334,979)	(44,693,807)	(22,772,297)

The Group's consolidated assets do not include any collateral for VisionChina Media Group's and Eastlong Advertising's obligations.

There was no pledge or collateral of the assets either in VisionChina Media Group or Eastlong Advertising as of December 31, 2012. Creditors of VisionChina Media Group have no recourse to the general credit of CDTC or the Company, which is the primary beneficiary of VisionChina Media Group. Creditors of Eastlong Advertising have no recourse to the general credit of Eastlong Technology or the Company, which is primary beneficiary of Eastlong Advertising.

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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, 2012, subsidiaries and variable interest entities 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%
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%
Vision Best Limited	N/A	September 23, 2009	BVI	100%
Whole Genius Limited	N/A	May 16, 2008	HK	100%
DMG	January 2, 2010	May 15, 2003	BVI	100%
DMG HK	January 2, 2010	October 10, 2003	HK	100%
Eastlong Technology	January 2, 2010	December 10, 2001	PRC	100%
Shenzhen Huachangshi Digital Technology Co., Ltd. (Huachangshi)	N/A	November 27, 2008	PRC	100%
Shenzhen Huadingshi Digital Technology Co., Ltd.	N/A	December 20, 2010	PRC	100%
Dienzhi Advertising (Shanghai) Co., Ltd	January 2, 2010	March 19, 2009	PRC	100%
VIE of CDTC				
VisionChina Media Group	N/A	April 8, 2005	PRC	note(a)
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.	N/A	December 18, 2006	PRC	100%
Beijing Huaguangshi Co., Ltd.	N/A	April 22, 2009	PRC	100%
Beijing Hua Jingshi Media Advertising Co., Ltd.	N/A	July 26, 2007	PRC	100%
Beijing Hua Meishi Advertising Co., Ltd.	N/A	May 25, 2007	PRC	100%
Luzhou Huashi Digital Technology Co., Ltd. (Luzhou Huashi)	N/A	November 21, 2009	PRC	100%
Nanjing Hua Meishi Advertising Co., Ltd.	N/A	July 16, 2007	PRC	100%

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Shenzhen Hua Meishi Advertising Co., Ltd.	N/A	June 29, 2007	PRC	100%
Shenzhen Huashixin Culture Media Co., Ltd.	N/A	September 3, 2007	PRC	100%
Guangzhou Jiaojian Multimedia Information Technology Co., Ltd.	N/A	October 8, 2007	PRC	50%
Shanghai Junshi Advertising Co., Ltd.	N/A	June 11, 2008	PRC	100%
Xian Qujiang Huachangshi Digital Technology Co., Ltd. (Xian Huachangshi)	N/A	November 12, 2009	PRC	100%
Jiangxi Huashi Media Advertising Co., Ltd. (Jiangxi Huashi)	N/A	June 17, 2011	PRC	100%
<u>VIE of Eastlong Technology</u>				
Eastlong Advertising	January 2, 2010	March 30, 2004	PRC	note(b)
<u>Subsidiaries of Eastlong Advertising</u>				
Nanjing Metro Operation Information Service Co., Ltd.	January 2, 2010	September 13, 2006	PRC	100%
Shenzhen Metro Operation Information Service Co., Ltd. (DMG Shenzhen)	January 2, 2010	August 10, 2005	PRC	100%
Tianjin Metro Operation Information Service Co., Ltd.	January 2, 2010	September 22, 2005	PRC	100%
Dienzhi Advertising (Beijing) Co., Ltd.	January 2, 2010	June 17, 2009	PRC	100%

Notes:

- (a) Through a series of contractual arrangements, VisionChina Media Group became a VIE of CDTC.
 (b) Through a series of contractual arrangements, Eastlong Advertising became a VIE of Eastlong Technology.

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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, 2012, the 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%
Chongqing Light Rail Information Services Co., Ltd. (DMG Chongqing)	January 2, 2011	December 30, 2004	PRC	46.75%
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%
Zhongguanguoji Metro TV (Beijing) Co., Ltd. (Zhongguanguoji)	January 2, 2010	December 22, 2005	PRC	49%

In January 2011, the Company disposed of 15.00% equity interest in the DMG Chongqing with a net asset value of \$365,373 to a third party noncontrolling shareholder at a consideration of \$230,709 with a gain of \$175,903. Upon such disposal, the equity interest of the Company in DMG Chongqing decreased from 61.75% to 46.75%, and the Company's voting power in board meetings of DMG Chongqing decreased from 60% to 40% while pursuant to the articles of association of DMG Chongqing, 50% or above of votes was required to pass a board resolution. Therefore, the Company deconsolidated DMG Chongqing upon such disposal, and accounted for it as an equity method investee because the Company can exercise significant influence over DMG Chongqing. The directors of the Company considered that the operation of the DMG Chongqing is not significant to the Group.

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1. ORGANIZATION AND PRINCIPAL ACTIVITIES - continued

Summary balance sheet information of DMG Chongqing as of the disposal date is as follows:

Cash and cash equivalents	\$	158,129
Other assets		538,607
Total liabilities		(331,363)
Total identifiable net assets	\$	365,373
Net cash inflow arising from disposal of equity interest of DMG Chongqing in 2011:		
Consideration received	\$	230,709
Cash and cash equivalents disposed		(158,129)
	\$	72,580

Apart from Zhongguanguoji and DMG Chongqing, the Group's equity method investees have been separately formed with ten 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.

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).

The accompanying consolidated financial statements have been prepared assuming that we will continue as a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The realization of assets and the satisfaction of liabilities in the normal course of business are dependent on, among other things, the Company's ability to generate cash flows from operations,

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and the Company's ability to arrange adequate financing arrangements, including the renewal of its bank borrowings and obtaining new bank borrowings, to support its working capital requirements.

The following factors raise substantial doubt about our ability to continue as a going concern for the foreseeable future.

- For the year ended December 31, 2012 and 2011, the Group incurred net loss of \$246,527,916 and \$12,618,254, respectively.
- During the year December 31, 2012, the Company experienced negative cash flow of operations of \$27,190,937.
- As of December 31, 2012, the Group had an overdue consideration payable of \$64 million in relation to the DMG Acquisition which is currently the subject of litigation with the DMG selling shareholders as detailed in Note 18 (c) to the consolidated financial statements. In August 2012 the New York Court ordered the Group to transfer \$60 million into New York State to be held in the custody of the New York City Sheriff's Office or into an escrow account controlled by the New York City Sheriff. \$4.5 million that were held by the Group outside China was transferred to the New York City Sheriff accordingly as of December 31, 2012. The Group is not able to transfer the remaining balance of \$55.5 million as ordered by the New York Court as the Group had cash and cash equivalents of \$29 million only as of December 31, 2012 most of which are held by the Company's subsidiaries or VIEs in China and moreover the Group had not been able to obtain approval from the relevant authority in China to transfer assets or cash held by the Group in China to meet the instructions of the New York Court.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in U.S. Dollars (\$), except number of shares)

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** - continued

(a) ***Basis of presentation*** - continued

These factors are mitigated by the following plans and actions:

- The Group has taken or in process of taking a number of initiatives to reduce costs and improve working capital management. The Group has been negotiating with a number of vendors, including vendors of concession right contracts, for them to provide the Group with lower prices or more favorable payment terms in order to achieve cost savings. The Group has decided to postpone a substantial portion of its planned capital expenditures for the next twelve months. In addition, the Group has implemented measures to more closely monitor the collection of receivable balances with an aim to improving liquidity.
- The Group has successfully negotiated with certain banks and will continue to negotiate with other banks to obtain revolving bank facilities to ensure the Group's bank borrowings can be renewed on an on-going basis. From January 1, 2013 to May 30, 2013, the Group has obtained additional secured short-term bank borrowings of \$24.2 million with interest rates of 160% of the People's Bank of China Benchmark rate (Benchmark Rate). The Group is currently seeking secured credit facilities from other PRC financial institutes of approximately \$48 million which the Group can utilize for working capital purpose in the next twelve-month period.
- The Company has performed a review of its cash flow forecast for the twelve months ending December 31, 2013. The Company believes that its operating cash flow will improve in 2013. While management believes the forecast is based on reasonable assumptions, significant assumptions include revenue growth rate of 9%.

Based on the above factors, management believes that adequate sources of liquidity will exist to fund the Group's working capital and capital expenditure requirements, and to meet its liabilities related to litigation with DMG selling shareholders if the Group is able to obtain approvals to transfer the funds by the relevant authority in China, and to meet short term debt obligations, other liabilities and commitments as they become due.

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(Amounts in U.S. Dollars (\$), except number of shares)

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** - continued

(b) *Principles of Consolidation*

The consolidated financial statements include the financial statements of the Company, its subsidiaries and VIEs for which the Company is the primary beneficiary. All inter-company transactions and balances have been eliminated on consolidation.

(c) *Noncontrolling interest*

Noncontrolling interest have 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.

(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; risks related to VIEs structure as detailed in note 1; and general risks associated with the advertising industry.

The Company is currently involved in litigation with the selling shareholders and former management of DMG as detailed in Note 18 (c). There can be no assurance that the Company will be successful in defending against any claims in the future. The damages, costs, expenses and attorneys' fees arising from any future claims against the Company could have an adverse effect on the Group's business, results of operations, financial condition and prospects. In addition, the Group's reputation may be negatively affected by these or any future allegations.

(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 bank loans to financial institutions and the bank deposits placed in escrow accounts as the performance security for certain concession agreements and PIDS agreements which are restricted from withdrawal. Restricted cash pledged as securities for outstanding short-term bank loans to financial institutions is classified as current asset. Restricted cash related to bank deposits in escrow accounts as the performance security for certain concession agreements and PIDS agreements are classified as current or non-current assets depending on whether or not such agreements are expected to be completed within one year.

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(Amounts in U.S. Dollars (\$), except number of shares)

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** - continued**(g)** *Accounts receivable*

Accounts receivable primarily represent amounts due from customers, which are recorded at the invoiced amount or at an amount in accordance with the contractual terms agreed with the advertising customers, and do not bear interest. The Group reviews its accounts receivable on a periodic basis and records allowances when there is a doubt as to the collectibility of the balance. In evaluating the collectibility of the accounts receivable balances, the Group considers various factors, including the age of the balance, customer specific facts and economic conditions. Accounts receivable balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The Group does not have any off-balance-sheet credit exposure related to its customers.

(h) *Intangible Assets, net*

Intangible assets, which consist of concession contracts, customer base, non-compete agreements technology, trademark 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 useful life
Customer base	5 years
Non-compete agreements	10 years
Trademark	10 years
Patents	10 years
Concession contracts	9 years
Technology	9 years

(i) *Fixed assets, net*

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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:

	Estimated useful life
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

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VISIONCHINA MEDIA INC.

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(Amounts in U.S. Dollars (\$), except number of shares)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

(j) *Investments under equity method*

The investments for which the Group has the ability to exercise significant influence are accounted for under 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 profit (loss).

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.

(k) *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 recognized in the consolidated statements of operations 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.

(l) *Impairment of long-lived assets*

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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 is less than the carrying amount of the assets, the Group recognizes an impairment loss based on the fair value of the assets. No impairment charge is recognized for long-lived assets during the year ended December 31, 2011. The Group recorded impairment charges of \$49,193,681 and \$36,449,082 against intangible assets in the consolidated statements of operations during the year ended December 31, 2010 and 2012, respectively as detailed in Note 8.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

(m) Goodwill

Goodwill is the excess of the consideration transferred over the fair value of the acquired assets and assumed liabilities in a business combination. Goodwill is not amortized but rather tested for impairment at least annually. The Company tests goodwill for impairment in December of each fiscal year. Goodwill is also tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying amount.

Specifically, goodwill impairment is determined using a two-step process. The first step compares the fair value of each reporting unit to its carrying amount, including goodwill. If the fair value of each reporting unit exceeds its carrying amount, goodwill is not considered to be impaired and the second step will not be required. If the carrying amount of a reporting unit exceeds its fair value, the second step compares the implied fair value of the affected reporting unit's goodwill to the carrying value of that goodwill. The implied fair value of goodwill is determined in a manner similar to accounting for a business combination with the 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. An impairment loss is recognized for any excess in the carrying value of goodwill over the implied fair value of goodwill. Estimating fair value is performed by utilizing various valuation techniques, with the primary technique being a discounted cash flow.

Impairment testing for goodwill is done at the reporting unit level. A reporting unit is an operating segment or one level below an operating segment (also known as a component).

No impairment charge is recognized against goodwill during the year ended December 31, 2011. The Group recorded impairment charges of \$96,526,823 and \$142,365,329 against goodwill in the consolidated statements of operations during the year ended December 31, 2010 and 2012, respectively as detailed in Note 7.

(n) Contingencies

The outcomes of legal proceedings and claims brought against the Company are subject to significant uncertainty. An estimated loss from a loss contingency such as a legal proceeding or claim is accrued if it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. In determining whether a loss should be accrued the Company evaluates, among other factors, the degree of probability of an unfavourable outcome and the ability to make a reasonable estimate of the amount of loss.

(o) ***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 customers. Payments received in advance of services provided are recorded as customer deposits.

Revenue is deferred until persuasive evidence of an arrangement exists, delivery has occurred provided that there are no significant post delivery obligations to the customers, the sales price is fixed or determinable, and collection is reasonably assured.

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(Amounts in U.S. Dollars (\$), except number of shares)

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** - continued

(a) **Revenue recognition** - continued

(2) Barter transactions

The Group engages in barter transactions which are generally recorded at fair value. The revenues contributed by barter transactions accounted for 1%, 6% and 0.3% of the Group's total revenues for the years ended December 31, 2010, 2011 and 2012, respectively.

(3) Sales of advertising equipment

Sales of advertising equipment comprises sales of media display equipment and PIDS.

Revenues from sales of media display equipment, which are from related parties, are recognized upon delivery, at which time all of the following four criteria are met: (i) pervasive evidence that an arrangement exists; (ii) delivery of the productions 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 reasonable assured.

The Group entered into certain arrangements for sales of PIDS where it is obligated to deliver multiple products and/or services (multiple elements), including, the equipment necessary for the operation of PIDS, free post-delivery support and training. The Group is unable to establish vendor-specific objective evidence or third party evidence of fair value for any of the elements in the arrangement because they are not sold separately, nor is the Group able to establish the estimated selling prices for each components in the arrangements for sales of PIDS. Recognition of revenue from the sales of PIDS is deferred until the earlier of the point at which such sufficient vendor-specific objective evidence does exist or all elements of the arrangement have been delivered.

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Advertising equipment revenues are recorded net of value-added tax incurred, which amounted to nil, \$1,778,682 and \$926,464 for the years ended December 31, 2010, 2011 and 2012, respectively.

(p) Cost of revenues

Cost of revenues comprises advertising service cost and advertising equipment cost.

Advertising service cost consists primarily of media costs payable under concession contracts, depreciation, amortization of concession contracts and patent, business taxes and surcharges and other operating costs. Media costs are expensed as incurred.

The amount of business taxes and surcharges included in advertising services cost totalling \$3,242,640, \$7,334,947 and \$3,392,558 for the years ended December 31, 2010, 2011 and 2012, respectively.

Advertising equipment represents the cost incurred for sales of media display equipment and PIDS, including purchase cost of digital television displays and equipment necessary for the operation of PIDS, and post-delivery training and supporting cost for PIDS. Cost of sales of PIDS is deferred until the corresponding revenue is recognized in the consolidated statements of operations.

(q) 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.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

(r) 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 on the respective dates of the transactions. Transaction gains and losses are recognized in the consolidated statements of operations.

The financial records of the Company's subsidiaries and VIEs are maintained in their respective local currencies, the Renminbi (RMB) or Hong Kong Dollar (HKD), which are also their respective functional currencies. 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 recorded within accumulated other comprehensive income in the consolidated statements of changes of equity and comprehensive income (loss).

(s) Net loss per share

Basic net loss per share is computed by dividing net loss attributable to VisionChina Media Inc. shareholders by the weighted average number of common shares outstanding during the year. Diluted net loss per 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 loss per share as their effect is anti-dilutive. The Company had outstanding share options amounted to 1,771,824, 1,555,353 and 1,488,696 as of December 31, 2010, 2011 and 2012, respectively. As of December 31, 2010, 2011 and 2012, the Company had outstanding restricted shares of 243,889, 308,025 and 443,351, respectively.

The following table sets forth the computation of basic and diluted net loss per share.

Year ended December 31,

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	2010	2011	2012
Numerator:			
Net loss attributable to VisionChina Media Inc. shareholders	\$ (151,338,222)	\$ (12,503,292)	\$ (246,409,192)
Denominator:			
Weighted average shares outstanding-basic	82,739,234	102,047,412	101,351,222
Weighted average number of shares outstanding-diluted	82,739,234	102,047,412	101,351,222
Basic net loss per share	\$ (1.83)	\$ (0.12)	\$ (2.43)
Diluted net loss per share	(1.83)	(0.12)	(2.43)

The above computations of diluted weighted-average number of shares outstanding exclude the effect of potential conversion of shares options and restricted shares into 2,015,713, 1,863,378 and 1,932,320 common shares for the years ended December 31, 2010, 2011, and 2012, respectively, as this would have an antidilutive effect on loss per share.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

(t) 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 carry forwards 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, within income tax (expense) benefits.

(u) Share-based compensation

Share-based payments to employees are measured based on the fair values of share options and restricted shares on the respective grant dates and recognized as compensation expense over the requisite service periods with a corresponding credit to additional paid-in capital. For share options and restricted shares granted with performance condition that do not affect the exercise price or factors other than vesting or exercisability, compensation expense is accrued if it is probable that the performance condition will be achieved, and compensation expense is not accrued if it is not probable that the performance condition will be achieved.

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 is 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.

(v) *Comprehensive income (loss)*

Comprehensive income (loss) includes net income (loss), gain (loss) on available-for-sale securities and foreign currency translation adjustments. Beginning on January 1, 2012, the Group presents the components of net income, the components of other comprehensive income and total comprehensive income in two separate but consecutive statements. The consolidated financial statements have been adjusted for the retrospective application of the authoritative guidance regarding presentation of comprehensive income (loss).

(w) *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. Significant accounting estimates reflected in the Group's consolidated financial statements include allowance for doubtful debts, valuations of goodwill and intangible assets, valuation of deferred tax assets and provision for litigation. These estimates are often based on complex judgments and assumptions that management believes to be reasonable but are inherently uncertain and unpredictable. Actual results could differ from those estimates.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

(x) Government grants

Government grants represent cash subsidies received from the PRC government by the operating subsidiaries or VIEs of the Company. Government grants are recognized after the grants have been received and all of the conditions specified in the grant have been met, and are classified as operating or non-operating profit based on the nature of the government grants.

In 2012, the Company received government incentive of \$756,757 from the local government for its business operations. This incentive has been classified as operating profit because it was related to the Company's business operations.

(y) Advertising costs

Advertising costs are expensed as incurred. Advertising costs amounted to \$3,519,708, \$13,038,126 and \$12,126,729 for years ended December 31, 2010, 2011 and 2012, respectively, and were included in selling and marketing expenses.

(z) 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, 2010, 2011 and 2012, 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. There is no individual customers with balances over 10% of the accounts receivable as of December 31, 2010 and 2011, and one customer accounted for 11% of the accounts receivable as of December 31, 2012.

Current vulnerability due to certain other concentrations

Substantially all of the Group's businesses are transacted in RMB. Since the RMB is not a fully convertible currency, all foreign exchange transactions involving the RMB must take place either through the People's Bank of China or other institutions authorized to buy and sell foreign exchange. The exchange rates adopted for the foreign exchange transactions are the rates of exchange 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.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

(aa) Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Group considers the principal or most advantageous market in which it would transact and it considers assumptions that market participants would use when pricing the asset or liability.

A fair value hierarchy is established that requires the Company to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.
- Level 2 applies to assets or liabilities for which there are inputs other than quoted prices included within Level 1 that are observable for the asset or liability such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical asset or liabilities in markets with insufficient volume or infrequent transactions (less active markets); or model-derived valuations in which significant inputs are observable or can be derived principally from, or corroborated by, observable market data.
- Level 3 applies to assets or liabilities for which there are unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the assets or liabilities.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

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The Group did not have any financial assets and liabilities or nonfinancial assets and liabilities that were required to be measured at fair value on a recurring basis as at December 31, 2010, 2011 and 2012. Other than the impaired goodwill and intangible assets (see Note 7 and Note 8), the Group did not have any assets and liabilities that were measured at fair value on a nonrecurring basis. The estimated fair value of the impaired goodwill and intangible assets at the time of impairment tests was estimated by applying unobservable inputs to the discounted cash flow valuation methodology that are significant to the measurement of the fair value of these assets (Level 3).

The carrying amounts of financial instruments, which consist 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.

The fair values of investments under the equity method of accounting and other investments accounted for under the cost method of accounting cannot be reasonably estimated without incurring excessive cost.

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(Amounts in U.S. Dollars (\$), except number of shares)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

(ab) Accounting pronouncements recently adopted

In May 2011, the FASB issued an authoritative pronouncement on fair value measurement. The guidance is the result of joint efforts by the FASB and International Accounting Standards Board to develop a single, converged fair value framework. The guidance is largely consistent with existing fair value measurement principles in US GAAP. The guidance expands the existing disclosure requirements for fair value measurements and makes other amendments, mainly including:

- Highest-and-best-use and valuation-premise concepts for nonfinancial assets-the guidance indicates that the highest-and-best-use and valuation-premise concepts only apply to measuring the fair value of nonfinancial assets.
- Application to financial assets and financial liabilities with offsetting positions in market risks or counterparty credit risk-the guidance permits an exception to fair value measurement principles for financial assets and financial liabilities (and derivatives) with offsetting positions in market risks or counterparty credit risk when several criteria are met. When the criteria are met, an entity can measure the fair value of the net risk position.
- Premiums or discounts in fair value measure-the guidance provides that premiums or discounts that reflect size as a characteristic of the reporting entity's holding (specifically, a blockage factor that adjusts the quoted price of an asset or a liability because the market's normal daily trading volume is not sufficient to absorb the quantity held by the entity) rather than as a characteristic of the asset or liability (for example, a control premium when measuring the fair value of a controlling interest) are not permitted in a fair value measurement.
- Fair value of an instrument classified in a reporting entity's stockholders' equity-the guidance prescribes a model for measuring the fair value of an instrument classified in stockholders' equity; this model is consistent with the guidance on measuring the fair value of liabilities.
- Disclosures about fair value measurements-the guidance expands disclosure requirements, particularly for Level 3 inputs. Required disclosures include:

- (i) For fair value measurements categorized in Level 3 of the fair value hierarchy: (1) a quantitative disclosure of the unobservable inputs and assumptions used in the measurement, (2) a description of the valuation process in place (e.g., how the entity decides its valuation policies and procedures, as well as changes in its analyses of fair value measurements, from period to period), and (3) a narrative description of the sensitivity of the fair value to changes in unobservable inputs and interrelationships between those inputs.

(ii) The level in the fair value hierarchy of items that are not measured at fair value in the statement of financial position but whose fair value must be disclosed.

The guidance is to be applied prospectively and is effective for interim and annual periods beginning after December 15, 2011, for public entities. Early application by public entities is not permitted. The Group adopted this pronouncement effectively January 1, 2012, which did not have a significant effect on the Group's consolidated financial statements.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

(ab) Accounting pronouncements recently adopted - continued

In June 2011, the FASB issued an authoritative pronouncement to require an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. The guidance eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. The guidance does not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. The guidance should be applied retrospectively. For public entities, the guidance is effective for fiscal years and interim periods within those years, beginning after December 15, 2011. Early adoption is permitted. In December 2011, the FASB issued an authoritative pronouncement related to deferral of the effective date for amendments to the presentation of reclassifications of items out of accumulated other comprehensive income. This guidance allows the FASB to redeliberate whether to present on the face of the financial statements the effects of reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income for all periods presented. While the FASB is considering the operational concerns about the presentation requirements for reclassification adjustments and the needs of financial statement users for additional information about reclassification adjustments, entities should continue to report reclassifications out of accumulated other comprehensive income consistent with the presentation requirements in effect update the pronouncement issued in June 2011. The Group adopted this guidance effective January 1, 2012 and presented the total consolidated statements of comprehensive income in two separate but consecutive statements.

In September 2011, the FASB issued an authoritative pronouncement related to testing goodwill for impairment. The guidance is intended to simplify how entities, both public and non-public, test goodwill for impairment. The guidance permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. The guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted, including for annual and interim goodwill impairment tests performed as of a date before September 15, 2011, if a public entity's financial statements for the most recent annual or interim period have not yet been issued. The Group adopted this pronouncement effective January 1, 2012, which did not have a significant effect on the Group's consolidated financial statements, as the Group chose to directly perform the two-step goodwill impairment test for 2012.

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(Amounts in U.S. Dollars (\$), except number of shares)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

(ac) Recently issued accounting standards

In December 2011, the Financial Accounting Standards Board (FASB) has issued an authoritative pronouncement related to Disclosures about Offsetting Assets and Liabilities. The guidance requires an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. An entity is required to apply the amendments for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. An entity should provide the disclosures required by those amendments retrospectively for all comparative periods presented.

In July 2012, the FASB has issued an authoritative pronouncement related to testing indefinite-lived intangible assets, other than goodwill, for impairment. Under the pronouncement, entities testing indefinite-lived intangible assets for impairment would have the option of performing a qualitative assessment before calculating the fair value of the asset. If an entity determines, on the basis of qualitative factors, that the indefinite-lived intangible asset is not more likely than not impaired, a quantitative fair value calculation would not be needed. The amendments are effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. Early adoption is permitted.

In February 2013, the FASB issued an authoritative pronouncement related to reporting of amounts reclassified out of accumulated other comprehensive income, to improve the transparency of reporting these reclassifications. Other comprehensive income includes gains and losses that are initially excluded from net income for an accounting period. Those gains and losses are later reclassified out of accumulated other comprehensive income into net income.

The guidance expands the exiting disclosure requirement for reporting net income or other comprehensive income in financial statements, including:

- Present (either on the face of the statement where net income is presented or in the notes) the effects on the line items of net income of significant amounts reclassified out of accumulated other comprehensive income - but only if the item reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period.
- Cross-reference to other disclosures currently required under U.S. GAAP for other reclassification items (that are not required under U.S. GAAP) to be reclassified directly to net income in their entirety in the same reporting period. This would be the case when

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a portion of the amount reclassified out of accumulated other comprehensive income is initially transferred to a balance sheet account (e.g., inventory for pension-related amounts) instead of directly to income or expense.

For public entities, the guidance is effective for reporting periods beginning after December 15, 2012. Early adoption is permitted. The Group will adopt this pronouncement on January 1, 2013, and do not expect the adoption of this pronouncement will have a significant impact on its financial condition or results of operations.

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3. ACQUISITIONS*Acquisitions in 2008*

Between April 1, 2008 and August 4, 2008, the Group acquired a 100% equity interest in the following entities: Peak, Aim, Golden, Goldwhite, Ahead and Century. 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 multiples ranging from 1.0 to 2.3 on the Earnings (as defined below) of the respective acquired businesses for the years ended December 31, 2008, 2009 and 2010, contingent upon the collection of the relevant revenues of respective acquired businesses (the Earn-out Consideration). The Earnings represent advertising service revenues generated by the acquired business as deducted by the relevant operating costs and expenses (including media costs, business taxes and surcharges, sales and marketing expenses, general and administrative expenses, allowance for doubtful accounts) incurred by the corresponding acquired business (Earnings). The Earnout Consideration is assessed quarterly and to be settled on demand.

Earn-out Consideration is accounted for as the purchase price of the acquired businesses when the contingency as stipulated in the acquisition agreements are resolved, that is when the relevant revenues of the respective acquired businesses for the years ended December 31, 2008, 2009 and 2010 are collected, by recording additional goodwill with a corresponding credit to consideration payable.

The following table summarizes the movements of the Earn-out Consideration payables:

	Peak	Aim	Golden	Goldwhite	Ahead	Century	Total
At January 1, 2010	\$ 28,038,118	\$ 5,295,120	\$ 5,635,961	\$ 6,092,346	\$ 7,268,198	\$ 4,874,243	\$ 57,203,986
Additional Earn-out Consideration for 2009		6,405,393	2,577,464	6,330,350	5,890,039	650,285	21,853,531
Earn-out Consideration for 2010	2,309,706	983,706	495,138	1,337,715	638,150	463,174	6,227,589
Less: Cash settlements in 2010	(23,776,583)	(10,921,164)	(7,281,461)	(9,904,807)	(11,930,914)	(4,694,249)	(68,509,178)
Offset by prepayment	(6,571,241)	(1,225,057)	(1,427,102)	(3,855,604)		(1,271,392)	(14,350,396)
At December 31, 2010	\$	\$ 537,998	\$	\$	\$ 1,865,473	\$ 22,061	\$ 2,425,532
Additional Earn-out Consideration for 2011					1,338,072		1,338,072
Less: Cash settlements in 2011		(537,998)			(761,130)	(22,061)	(1,321,189)

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Offset by prepayment					(2,442,415)		(2,442,415)
At December 31, 2011 and 2012	\$	\$	\$	\$	\$	\$	\$
Recorded in the balance sheet							
As of December 31, 2011 and 2012 as:							
- Current	\$	\$	\$	\$	\$	\$	\$
- Non-current							

The Earn-out Consideration payable was fully settled during the year ended December 31, 2011. Such arrangement is completed as of December 31, 2011.

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3. ACQUISITIONS - continued

Acquisition in 2010

On October 15, 2009, the Company entered into an agreement with DMG to acquire a 100% equity interest in DMG (the DMG Acquisition). Prior to the acquisition, DMG through its subsidiaries and VIE, was principally engaged in selling advertising time on its out-of-home digital television networks in subway platforms in the PRC and HK. The purpose of this acquisition is to eliminate the competition with DMG and increase the Group's market share in selling advertisement time on mobile digital television networks in the PRC. The acquisition was completed in January 2010. The total fair value of consideration on the acquisition date of \$166,534,458 is payable by means of cash and/or the Company's common shares to the selling shareholders of DMG in three instalments over two years, including an initial instalment of \$100,000,000 payable at the closing of the transaction. The initial instalment of consideration consists of payment of \$40,000,000 in cash (the First Cash Instalment) and the delivery of 8,476,013 common shares of the Company. The agreement specifies that the two subsequent instalments of \$30,000,000 each, in which \$20,000,000 will be payable in cash and \$10,000,000 will be payable, at the election of the selling shareholders of DMG, either in cash or in common shares of the Company, is due on the first and second anniversaries of the closing of the transaction, which is in 2011 and 2012, respectively. The 8,476,013 common shares issuable to the selling shareholders of DMG under the initial instalment are subject to a one-year lock-up period. For the \$10,000,000 payable in cash or in common shares of the Company in each of the two subsequent instalments, if the selling shareholders of DMG elected to receive common shares, the agreement specifies that these common shares are to be subject to a lock-up period of 3 months from the date of issuance. The transaction cost in relation to the DMG Acquisition was approximated to \$472,000 which is included in general and administrative expense for the year ended December 31, 2010.

Pursuant to the agreement, the Group placed \$40,000,000 in the designated escrow account in 2009, \$36,000,000 of which was subsequently released as payment for the First Cash Instalment during the year ended December 31, 2010. The remaining deposit of \$4,000,000 is expected to be released to the selling shareholders of DMG by the escrow agent when the litigation with the selling shareholders and former management of DMG as set out in Note 18(c) is completed, and is recorded in the consolidated balance sheet within prepaid expenses and other current assets (see Note 5) as of December 31, 2011 and 2012. Upon release, the remaining deposit will be offset against the current portion of consideration payable relating to the first instalment of consideration. The Company issued 8,476,013 new common shares in 2010 for the DMG Acquisition, 7,628,412 common shares of which have been released to the selling shareholders of DMG in 2010, while the remaining 847,601 common shares have not been released to the selling shareholders of DMG as of December 31, 2011 and 2012.

The second and third instalments of consideration with total amount of \$60,000,000 and the remaining deposit of \$4,000,000 for the DMG Acquisition are recorded within current portion of consideration payable on the consolidated balance sheet as of December 31, 2011 and 2012.

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The Company accounted for this business combination using the acquisition method of accounting. The following table summarizes the consideration paid for DMG Acquisition and the amounts of the assets acquired and liabilities assumed recognized based on their fair values as of the acquisition date, as well as the fair value at the acquisition date of the noncontrolling interest in DMG.

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3. ACQUISITIONS - continued*Acquisition in 2010* - continued

	As of Acquisition date	Amortization period
Consideration		
Cash (Note a)	\$ 79,311,438	
Equity instruments (8,476,013 common shares of the Company) (Note b)	67,567,386	
Cash / Equity instruments (Note c)	19,655,634	
Fair value of total consideration transferred	\$ 166,534,458	
Recognized amounts of identifiable assets acquired and liabilities assumed		
Identifiable intangible assets		
- Concession contracts	\$ 90,653,467	9 years
- Technology	336,838	9 years
- Non-compete agreements	161,097	10 years
Cash and cash equivalents	3,840,983	
Restricted cash	42,409,500	
Fixed assets	6,795,102	
Trade and other receivables and other assets	9,175,868	
Short-term bank borrowings	(42,898,604)	
Trade and other payables and other current liabilities	(10,631,163)	
Deferred tax liabilities - non-current	(22,787,850)	
Total identifiable net assets	\$ 77,055,238	
Noncontrolling interest	(2,403)	
Goodwill	89,481,623	
	\$ 166,534,458	
Cash flows arising on acquisition in 2010:		
Cash and cash equivalents acquired	\$ 3,840,983	

Notes:

(a) This amount represents the cash deposit of \$40,000,000 paid in 2009 (see Note 11) and fair value of the portion of consideration payable to be settled in cash totalling \$40,000,000 due in 2010 and 2011. As of December 31, 2012, the consideration payable of \$40,000,000 due in 2012 remains unpaid as a result of the litigation with the selling shareholders of DMG as set out in Note 18(c).

(b) The Company issued 8,476,013 common shares in 2010 for the DMG Acquisition, 7,628,412 common shares of which has been released to the selling shareholders of DMG in 2010, while the remaining 847,601 common shares has not been released to the selling shareholders of DMG as of December 31, 2011 and 2012.

(c) This amount represents fair value of the portion of consideration payable totalling \$20,000,000, which pursuant to the agreement should be settled, at the election of the selling shareholders of DMG, either in cash or in common shares of the Company, in 2010 and 2011. As of December 31, 2011 and 2012, the overdue consideration payable of \$20,000,000 remains unpaid as a result of the litigation with the selling shareholders and former management of DMG as set out in Note 18(c).

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(Amounts in U.S. Dollars (\$), except number of shares)

3. ACQUISITIONS - continued

Acquisition in 2010 - continued

The fair values of intangible assets were derived from a valuation report prepared with the assistance of an unrelated valuation expert.

The fair value of the 8,476,013 common shares issued as part of the consideration paid for DMG Acquisition was determined based on the closing market price of the Company's common shares on the acquisition date, adjusted for lower liquidity of lock-up period of such shares.

The fair value of the trade and other receivables and other assets includes accounts receivable with a fair value of \$3,719,694. The gross amount due under the contracts is \$3,923,478, of which \$203,784 is expected to be uncollectible.

The amount of goodwill resulting from the purchase price allocation represents the premium paid for potential synergies expected to be generated from the acquisition. None of the goodwill recognized is expected to be deductible for income tax purposes.

The fair value of the noncontrolling interest in DMG, a private entity, was estimated by applying the income approach and the market approach. This fair value measurement is based on significant inputs that are not observable in the market and thus represents a Level 3 measurement. Key assumptions include a discount rate of 16%, a terminal value based on long-term sustainable growth rates of 3%, and adjustments because of the lack of control or lack of marketability that market participants would consider when estimating the fair value of the noncontrolling interest in DMG.

Please refer to Note 18(c) for further details on the litigation with the selling shareholders and former management of DMG.

4. ACCOUNTS RECEIVABLE

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	December 31,	
	2011	2012
Accounts receivables	\$ 70,711,270	\$ 46,158,050
Less: Allowance for doubtful accounts	(4,427,016)	(9,414,581)
	\$ 66,284,254	\$ 36,743,469

Movements in allowance for doubtful accounts

	December 31,	
	2011	2012
Balance at beginning of the year	\$ 1,241,874	\$ 4,427,016
Foreign exchange adjustment	117,793	35,972
Current year additions	3,067,349	4,951,593
	\$ 4,427,016	\$ 9,414,581

As at December 31, 2011 and 2012, the Group had billed account receivables of \$39,777,899 and \$34,822,040 and unbilled account receivables of \$30,933,371 and \$11,336,010, respectively. Unbilled account receivables represent amounts earned under advertising contracts in progress but not billable at December 31, 2011 and 2012. 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.

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5. PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets consist of the following:

	December 31,	
	2011	2012
Advances to suppliers	\$ 5,733,241	\$ 7,039,523
Prepaid expenses	11,188,313	5,067,824
Barter goods	5,463,771	4,355,479
Deposit for DMG Acquisition	4,000,000	4,000,000
Other deposits	2,697,970	1,066,166
Other current assets	5,194,858	5,278,902
	\$ 34,278,153	\$ 26,807,894

Advances to suppliers mainly represent prepayment for media costs. Other deposits mainly represent deposits for media cost agreements that will expire within one year.

6. FIXED ASSETS, NET

Fixed assets consist of the following:

	December 31,	
	2011	2012
Media display equipment	\$ 21,481,364	\$ 22,038,529
Computers and office equipment	3,162,839	3,705,490
Motor vehicles	587,191	611,559
Leasehold improvements	1,874,572	2,141,980
Sub-total	27,105,966	28,497,558
Less: accumulated depreciation and amortization	(13,468,214)	(17,715,392)
	\$ 13,637,752	\$ 10,782,166

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Depreciation and amortization expense was \$4,345,512, \$4,777,754 and \$4,620,658 for the years ended December 31, 2010, 2011 and 2012, respectively.

Included in media display equipment are assembly in progress of \$2,243,574 and \$1,069,112 as of December 31, 2011 and 2012, respectively. These assets are expected to be placed in service in the following year.

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7. GOODWILL

The Group's goodwill primarily arises from the business acquisitions and subsequent settlement of contingent consideration of these acquisitions. The changes in the carrying amount of goodwill for the years ended December 31, 2011 and 2012 are as follows:

Balance as of January 1, 2011	\$	134,570,979
<i>Representing:</i>		
- gross goodwill	\$	231,097,802
- accumulated impairment loss		(96,526,823)
Net exchange differences		5,497,405
Addition as a result of contingent consideration resolved (note 3)		1,338,072
Balance as of December 31, 2011	\$	141,406,456
<i>Representing:</i>		
- gross goodwill	\$	244,853,445
- accumulated impairment loss		(103,446,989)
Net exchange differences		958,873
Impairment loss		(142,365,329)
Balance as of December 31, 2012	\$	
<i>Representing:</i>		
- gross goodwill	\$	246,843,017
- accumulated impairment loss		(246,843,017)

Goodwill impairment in 2011

The Company performed the 2011 annual impairment test for each reporting unit in December 2011 by comparing the carrying value of each reporting unit, inclusive of assigned goodwill, to its respective fair value, i.e. step 1 of the two-step impairment test. The Company estimated the fair value of these reporting units by using a discounted cash flow methodology. The valuation technique is based on a number of estimates and assumptions, including the projected future cash inflow from the reporting units, appropriate discount rates and long-term growth rates. Based on this quantitative test, the Company determined that the fair value of each reporting unit tested in 2011 exceeded its carrying amount and, therefore, step 2 of the two-step goodwill impairment test was unnecessary. The Company concluded that goodwill was not impaired for the year ended December 31, 2011.

Goodwill impairment in 2012

In light of the following changed facts and circumstances, which indicated a potential impairment loss on the goodwill of reporting unit: (1) the early termination of the concession right agreement in Shanghai subway in June 2012 due to relevant revenue being outweighed by significant media costs which was not anticipated in the 2011 impairment assessments and (2) significantly weaker advertising spending outlook compared to the Company's cash flow projection used in 2011 impairment assessment due to the slowing down of economic growth in China since the second quarter of 2012, the Company therefore performed an impairment analysis for the reporting unit in June 2012. The Company performed the first step of its goodwill impairment test and determined that the carrying value of the reporting unit exceeded their fair value. The fair value of the reporting unit was estimated using a discounted cash flow methodology through internal analysis, which utilizes income approach through the application of discounted cash flow method. The valuation technique is based on a number of estimates and assumptions, including the projected future cash inflow from the reporting unit, appropriate discount rates of 20% and terminal growth rate of 0%. Having determined that the goodwill was potentially impaired, the Company began performing the second step of the goodwill impairment analysis which involved calculating the implied fair value of the goodwill by allocating the fair value of the reporting unit to all of their assets and liabilities other than goodwill and comparing the residual amount to the carrying value of goodwill. Accordingly, the Company recorded impairment losses of \$142,365,329 against the goodwill allocated to the reporting unit for the year ended December 31, 2012.

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8. INTANGIBLE ASSETS, NET

As of December 31, 2011 and 2012, the Group had the following amounts related to the intangible assets:

	Weighted average economic life	Cost	December 31, 2011			December 31, 2012			
			Accumulated amortization	Impairment loss	Net Carrying values	Cost	Accumulated amortization	Impairment loss	Net Carrying values
Customer base	5 years	\$ 12,899,107	\$ (6,635,203)	\$ (5,366,440)	\$ 897,464	\$ 13,003,920	\$ (6,850,171)	\$ (6,153,749)	\$
Non-compete agreements	10 years	4,141,808	(1,132,013)	(2,550,882)	458,913	4,175,461	(1,093,080)	(3,082,381)	
Patents	10 years	252,507	(63,264)		189,243	270,429	(86,457)		183,972
Trademark	10 years	138,533	(27,707)		110,826	232,853	(50,134)		182,719
Concession contracts	9 years	97,445,016	(16,597,474)	(42,966,808)	37,880,734	98,236,816	(19,098,460)	(79,138,356)	
Technology	9 years	362,074	(42,896)	(319,178)		365,016	(40,557)	(324,459)	
		\$ 115,239,045	\$ (24,498,557)	\$ (51,203,308)	\$ 39,537,180	\$ 116,284,495	\$ (27,218,859)	\$ (88,698,945)	\$ 366,691

The Company estimates the fair value of the intangible assets through internal analysis, which utilizes income approach through the application of discounted cash flow method. The valuation technique is based on a number of estimates and assumptions, including the projected future cash inflow from the intangible assets, appropriate discount rates and long-term growth rates. For the year ended December 31, 2012, the Group recorded an impairment loss of \$36,449,082 on its intangible assets due to poorer than expected performance of the Group in 2012 as detailed in Note 7.

No impairment loss on intangible assets was recorded during the year ended December 31, 2011.

The Group recorded amortization expense as follows:

	2010	December 31, 2011	2012
Cost of revenue	\$ 10,184,158	\$ 5,322,301	\$ 2,727,084
Selling and marketing expense	1,846,770	740,238	379,008
General and administrative expense	33,805	35,647	45,642

\$ 12,064,733 \$ 6,098,186 \$ 3,151,734

9. INVESTMENTS UNDER EQUITY METHOD

As of December 31, 2011 and 2012, the Group had, in total, eleven equity method investees which are engaged in provision of digital mobile television advertising services in the PRC. The Group has accounted for these investments using the equity method of accounting.

The combined results of operations and financial position of these investments are summarized below:

	Year ended December 31,		
	2010	2011	2012
<u>Condensed statement of operations information:</u>			
Revenue	\$ 8,224,393	\$ 10,463,451	\$ 11,970,674
Net (loss) income	(527,690)	1,125,147	949,340
Group's equity in net (loss) income of investees	\$ (258,568)	\$ 548,809	\$ 465,175

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9. INVESTMENTS UNDER EQUITY METHOD - continued

	December 31,	
	2011	2012
<u>Condensed balance sheet information:</u>		
Current assets	\$ 10,576,931	\$ 13,596,732
Non-current assets	5,023,418	3,853,123
Total assets	15,600,349	17,449,855
Current liabilities	5,073,679	5,887,964
Equity	10,526,670	11,561,891
Total liabilities and equity	15,600,349	17,449,855
Group's share of net assets	\$ 5,154,181	\$ 5,661,406

As of December 31, 2011 and 2012, the carrying value of the Group's investments under the equity method was \$7,200,301 and \$7,304,745, 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 unrealised 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% equity interest in Shenzhen Mobile Television Company Limited (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. Although the Group has 25% voting power in board meetings of Shenzhen Mobile, the Group cannot exercise significant influence over Shenzhen Mobile's operating and financial activities because the remaining 75% voting power is dominated by a sole controlling shareholder of Shenzhen Mobile and only that sole controlling shareholder can appoint key management personnel in Shenzhen Mobile. The Group accounts for this investment using the cost method of accounting. During the year ended December 31, 2011 and 2012, the Group received dividend income from Shenzhen Mobile of \$142,265 and \$162,100, respectively. The Group did not receive any dividend income from Shenzhen Mobile for the years ended December 31, 2010.

In 2006, the Group acquired a 14% equity interest in Wuxi Guangtong Digital Mobile Television Company Limited (Guangtong Mobile). During the year ended December 31, 2009, all equity holders 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

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PRC and engages in the provision of digital mobile television advertising business in the PRC. As the Group has 14.2% voting power in board meetings of Guangtong Mobile, the Group accounts for this investment using the cost method of accounting.

In 2011, the Group acquired a 20% equity interest in Shenzhen Eastlong Huatong Technology Development Company Limited (Eastlong Huatong) at a consideration of \$157,423. Eastlong Huatong was established in the PRC and engages in development of multimedia interactive information system for subway in PRC. As the Group does not have any voting power in board meetings of Eastlong Huatong, the Group cannot exercise significant influence over Eastlong Huatong 's operating and financial activities. The Group accounts for this investment using the cost method of accounting.

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11. LONG-TERM PREPAYMENTS AND DEPOSITS

Long term prepayments and deposits consist of the following:

	December 31,	
	2011	2012
Prepayments for acquisition of fixed assets	\$ 1,132,235	\$ 722,036
Other deposits	16,915,183	14,345,274
Other long-term prepayments	1,848,767	2,469,295
	\$ 19,896,185	\$ 17,536,605

Other deposits mainly represent deposits for concession contracts.

12. BANK LOANS AND FACILITIES

As of December 31, 2012, the Group has \$9 million (approximate to RMB57 million), RMB denominated, secured revolving credit facility scheduled to expire on June 24, 2013 (the Facility) granted by Bank of China (Shenzhen branch) (BOC(SZ)) to CDTC. The Facility is secured by restricted cash of \$10 million. The Facility is available for general corporate working capital purposes at an interest rate of the Benchmark Rate. As of December 31, 2012, there were borrowings of \$9 million (see below). The unutilised amount of the Facility was nil as of December 31, 2012. The Group's bank loans consist of the following:

	December 31,	
	2011	2012
BOC (SZ)		
- Interest rate at Benchmark Rate, denominated in RMB	\$	\$ 8,998,429
China Construction Bank (Shenzhen branch) (CCB(SZ))		
- Interest rate at 110% of Benchmark Rate, denominated in RMB(1)	20,465,028	
Total bank loans	20,465,028	8,998,429
Less: Amount due within one year shown under current liabilities	20,465,028	8,998,429
Amount due after one year shown under non-current liabilities	\$	\$

Note:

- (1) The amounts were repaid in full in June 2012.

In January 2013, the Group has entered into another \$24 million (approximate to RMB150 million) RMB denominated secured revolving credit facility, granted by CCB(SZ) to a VIE, VisionChina Media Group, scheduled to expire on January 13, 2014 (the CCB Facility). The CCB Facility is secured by accounts receivable of VisionChina Media Group. The CCB Facility is available for general corporate working capital purposes at an interest rate of 160% of the Benchmark Rate. The CCB Facility contains restrictive financial covenant of maintaining a leverage ratio of 65% by VisionChina Media Group. Violation of such covenant could result in a default under the CCB Facility, which would permit the CCB(SZ) to terminate the CCB Facility available to the Group and require immediate repayment from the Group of any outstanding loans advanced under the CCB Facility. As of date of this report, there were borrowings of \$24 million and the unutilised amount of the CCB Facility was nil as of date of this report.

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13. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities consist of the following:

	December 31,	
	2011	2012
Accrued payroll and welfare	\$ 3,606,301	\$ 3,800,756
Customer deposits	3,847,119	4,964,622
Accrued penalty interest for overdue considerable payable (Note 18(c))	3,375,000	9,368,145
Accrued expenses	6,166,161	6,642,338
Other current liabilities	1,819,969	1,435,398
	\$ 18,814,550	\$ 26,211,259

14. COMMON SHARES

There were 101,313,015 common shares issued and outstanding as of December 31, 2011 after the issuance of 17,375,479 common shares to Focus Media Holding Limited, JJ Media Investment Holding Limited and an existing shareholder of the Company at the price of \$3.97 per share in January 2011, the repurchase of 1,062,450 common shares at an average price of \$1.77 per share by the Company pursuant to a share repurchase program during the year ended December 31, 2011, and the issuance of 105,098 common shares as a result of the exercise of 88,334 share options and issuance of 16,764 restricted shares (see Note 16).

There were 101,366,544 common shares issued and outstanding as of December 31, 2012 after the the issuance of 53,529 common shares as a result of the exercise of 39,100 share options and issuance of 14,429 restricted shares (see Note 16).

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 subsidiaries, CDTC and Eastlong Technology, and their VIEs, VisionChina Media Group and Eastlong Advertising.

Cayman Islands and BVI

The Company which was incorporated in the Cayman Islands and its subsidiaries incorporated in Cayman Islands and BVI are all not subject to income tax under the current laws of the Cayman Islands and BVI. In addition, payments of dividends by the Company to its shareholders, are not subject to Cayman Islands or BVI withholding tax.

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 rate is 16.5%.

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15. INCOME TAXES - continued

The PRC

On January 1, 2008, the new enterprise income tax (EIT) law in the PRC (the New EIT Laws) 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 is a transition period for enterprises, whether foreign-invested or domestic, that were receiving preferential tax treatments granted by relevant tax authorities at the time when New EIT Law took effect. 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, Shenzhen HDTV and DMG Shenzhen is 18%, 20%, 22%, 24% and 25% in the years 2008, 2009, 2010, 2011, 2012, respectively.

In accordance with a circular issued in November 2008, VisionChina Media Group has been recognized as a state-encouraged high-new technology enterprise since 2008, and the status is valid for a period of three years and was therefore entitled to a preferential tax rate of 15% in 2008, 2009 and 2010. In October 2011, VisionChina Media Group obtained the approval to continue being recognized as a state encouraged high-new technology enterprise in 2011, 2012, and 2013, and is entitled to a preferential tax rate of 15% in these three years, subject to tax authority approval at the end of each year.

In accordance with a circular issued in December 2010, Eastlong Technology has been recognized as a state-encouraged high-new technology enterprise starting from 2010, and the status is valid for a period of three years. Eastlong Technology is thus entitled to a preferential tax rate of 15% in 2010, 2011 and 2012, subject to tax authority approval at the end of each year. As such the EIT rate for Eastlong Technology is 15% in each of the years of 2010, 2011 and 2012, respectively.

Xian Huachangshi and Huadingshi were 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 a reduced tax rate of 7.5% for the years ended December 31, 2010 and 2011 and a reduced tax rate of 12.5% for the year ended December 31, 2012.

Notwithstanding the applicable statutory tax rates noted above, in 2011 and 2012, under the direction of the relevant in-charge tax authority, Jiangxi Huashi applied a deemed-profit-rate method for its annual tax filings in 2011 and 2012. Pursuant to the deemed-profit-rate method, taxable income for Jiangxi Huashi was deemed at 16% of revenues. An additional amount of \$630,000 and \$397,000 would otherwise have been payable if deemed-profit-rate method is not allowed for the years ended December 31, 2011 and 2012, respectively.

The Company and its other subsidiaries in the PRC have minimal operations and the Group has minimal operations in jurisdictions other than the PRC.

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15. INCOME TAXES - continued

The current and deferred components of the income tax expenses (benefits) appearing in the consolidated statements of operations are as follows:

	2010	Year ended December 31, 2011	2012
Current tax	\$ (193,330)	\$ 162,845	\$ 125,733
Deferred tax	(18,008,959)	(956,260)	(7,673,154)
	\$ (18,202,289)	\$ (793,415)	\$ (7,547,421)

The principal components of the Group's deferred income tax assets and liabilities are as follows:

	2011	December 31, 2011	2012
Deferred tax assets:			
Net operating loss carrying forward	\$	7,002,554	\$ 18,682,444
Total deferred tax assets		7,002,554	18,682,444
Valuation allowance on deferred tax assets		(4,284,387)	(18,238,463)
Net deferred tax assets (non-current)	\$	2,718,167	\$ 443,981
Deferred tax liabilities:			
Intangible assets (non-current)	\$	9,808,291	\$

Movement of valuation allowance

	2010	Year ended December 31, 2011	2012
At the beginning of the year	\$ 2,112,994	\$ 13,210,882	\$ 4,284,387
Arising from DMG Acquisition	10,364,217		

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Tax loss expired		(9,030,073)		(500,181)
Liquidation of a subsidiary		(66,176)		(263,329)
Exchange realignment	613,465	225,275		17,069
Change in tax rate	(1,285,778)	9,329		(225,318)
Change for the year	1,405,984	(64,850)		14,925,835
At the end of the year	\$ 13,210,882	\$ 4,284,387	\$	18,238,463

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, 2011 and 2012, a valuation allowance was provided for the deferred tax assets relating to the future benefit of net operating loss carry forward as the management determined that the utilization of those net operating loss carry forward 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.

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15. INCOME TAXES - continued

As of December 31, 2012, the Group had net operating loss carry forward of approximately \$2,893,672, \$13,019,087, \$6,063,929, \$5,710,930 and \$50,720,129 that will expire in the years ending December 31, 2013, 2014, 2015, 2016 and 2017, respectively.

A reconciliation of the income tax benefits to the amount computed by applying the current tax rate to loss before income taxes in the statements of operations is as follows:

	2010	Year ended December 31, 2011	2012
Expected taxation at PRC EIT statutory rate of 25%	\$ (42,364,813)	\$ (3,352,917)	\$ (63,518,834)
Effect of different tax rates	(4,698,082)	251,879	1,749,282
Effect of loss that cannot be carried forward	1,785,662	1,419,225	2,447,707
Tax expense arising from items which are not deductible or not taxable for tax purpose:			
- non-deductible entertainment expenses	1,269,481	592,257	1,027,013
- goodwill impairment	24,131,706		29,467,644
- others, net	528,275	792,187	1,070,292
Effect of tax exemption and tax concessions	(67,172)	(175,571)	5,283,567
(Overprovision) underprovision in prior years	(193,330)	(255,625)	73
Change in valuation allowance	1,405,984	(64,850)	14,925,835
Total income tax benefit	\$ (18,202,289)	\$ (793,415)	\$ (7,547,421)

The amounts of \$67,172 and \$175,571 would otherwise have been payable without tax exemptions and tax concessions for the years ended December 31, 2010 and 2011, respectively. In addition, \$0.001 and \$0.002 would have been deducted from the basic net loss per share for the years ended December 31, 2010 and 2011, 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. Due to the present uncertainties resulting from the limited PRC tax guidance on this issue, it is unclear that the legal entities organized outside of PRC should be

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treated as residents for New EIT Law purposes. Because substantially all of the Company's revenues on a consolidated basis are generated in the PRC, and the Company's legal entities organized outside of the PRC does not generate any taxable income on a standalone basis, even if one or more of the Company's legal entities organized outside of the PRC were characterized as PRC tax residents, the Company does not expect any significant adverse impact on the Company's consolidated results of operations.

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15. INCOME TAXES - continued

Aggregate undistributed earnings of the Company's subsidiaries and VIEs in the PRC that are available for distribution to the Company of approximately \$2.0 million at December 31, 2012 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. However, the actual amount of earnings distributable to the Company from its subsidiaries and VIEs in the PRC could vary as a result of the restrictions and procedures governed by the relevant tax authorities and the State Administration of Foreign Exchange. 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, deferred tax liability should be accounted for in respect of the undistributed earnings of the Company's financial interest in VIE affiliates and domestic subsidiaries. The Company believes that it is more likely than not that there is no deferred tax liability resulting from the undistributed earnings because the Company has means available under the PRC tax law to recover the investment in its consolidated VIE tax free, including but not limited to the following series of transactions:

- The provision of technical support service by the Company's PRC wholly owned subsidiary to its consolidated VIE will cause an expense to the consolidated VIE, resulting in the majority of the undistributed earnings of the consolidated VIE being transferred to the Company without incurring any additional income tax expense on the basis that the Company's PRC wholly owned subsidiary and the consolidated VIE are in the same tax jurisdiction and subject to the same income tax rate. The price of the technical support service will be determined on an arm's length basis.
- The Company would ensure the significant existing contracts, including the exclusive agency agreements and the contracts for direct investment arrangements to be signed or renewed upon expiry of such contracts by a new VIE of the Company. Therefore, all the operations in the existing consolidated VIE will be taken by the new VIE without resulting any capital gain subject to income taxes; and
- The Company or its wholly owned PRC subsidiary would exercise the call option to acquire all the equity interests in the existing consolidated VIE from its shareholders after all the operations have been transferred to the new VIE. Without any continuing operations or substantial remaining undistributed earnings, the purchase price for the existing consolidated VIE would be approximately valued at its paid-in capital, in which case it is not more likely than not that it would give rise to income tax resulting from any capital gain.

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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 in each case, 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 its consolidated 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 benefit (expense). As of December 31, 2012, there is no interest or penalties related to uncertain tax positions. The years 2007 to 2012 remain subject to examination by the PRC tax authorities.

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16. 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 2010, the Group granted 379,000 share options to employees with exercise prices ranging from \$4.32 to \$4.71. In 2010, the Group also granted 470,000 restricted shares to consultants and employees. In 2011, the Group granted 84,000 restricted shares to employees. No share options were granted in 2011 and 2012. In 2012, the Group granted 154,926 restricted shares to employees.

Share Options

The contractual term of the share options granted is generally ten years. The majority of the share options granted vest 25% after the first year of service and ratably over the remaining 36-month period, and certain of the share options vest contingent upon meeting performance criteria set by the Company over a performance period ranging from 9 months to 48 months from the respective grant dates. For the share options that would vest based on performance conditions, the performance criteria are linked to the employees' job performance, and at the end of the performance period, the Company determines at its sole discretion whether each employee has met all performance criteria for the vesting of the share options. The performance criteria do not affect the exercise price or factors other than vesting or exercisability. Included in the 379,000 share options granted during 2010 are 80,100 options that would vest based on performance conditions.

The fair value of share options granted to employees was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

	2010
Risk-free interest rate	0.46% - 2.67%
Expected life	0.75 - 4 years
Expected volatility	0.66 - 1.52
Expected dividends	0%

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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.

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16. SHARE INCENTIVE PLAN - continued*Share Options* - continued

The fair values of share options granted in 2010 were determined on a contemporaneous basis by management of the Company with reference to the market value of the Company's shares.

A summary of share options under the Plan during the years ended December 31, 2010, 2011 and 2012 is presented below:

	Number of shares	Weighted- average exercise price	Weighted- average remaining contractual life	Weighted- average fair value
Outstanding as of January 1, 2010	2,399,658	\$ 5.10	8.00	\$ 1.87
Granted				
- April 2, 2010	172,000	4.68		2.58
- April 20, 2010	100,000	4.71		4.71
- September 26, 2010	107,000	4.32		3.78
Exercised	(202,800)	0.76		0.23
Forfeited	(804,034)	8.09		4.14
Outstanding as of December 31, 2010	1,771,824	\$ 4.13	7.34	1.45
Exercised	(88,334)	1.05		0.18
Forfeited	(128,137)	6.06		3.92
Outstanding as of December 31, 2011	1,555,353	\$ 4.55	6.30	1.33
Exercised	(39,100)	1.00		0.21
Forfeited	(27,557)	5.31		3.60
Outstanding as of December 31, 2012	1,488,696	\$ 4.22	5.28	1.46
Exercisable as of December 31, 2012	1,415,873	\$ 4.78	5.01	
	1,415,873	\$ 4.78	5.01	

Vested or expected to vest as of December
31, 2012

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16. SHARE INCENTIVE PLAN - continued

Share Options - continued

The Company received proceeds of \$157,533, \$92,840 and \$39,000 from exercise of share options by the employee during the years ended December 31, 2010, 2011 and 2012, respectively.

The aggregate intrinsic value of options outstanding, options exercisable and options vested or expected to vest as of December 31, 2012 was nil, nil and nil, respectively.

The aggregate intrinsic values of share options exercised during the years ended December 31, 2010, 2011 and 2012 were \$1,561,267, \$230,732 and \$78,216, respectively.

Restricted shares

A summary of restricted shares under the Plan during the years ended December 31, 2010, 2011 and 2012 is presented below:

	Number of shares	Weighted average fair value
Outstanding as of January 1, 2010	90,723	\$ 8.80
Granted	470,000	4.30
Forfeited	(247,917)	5.78
Vested	(68,917)	6.14
Outstanding as of December 31, 2010	243,889	\$ 3.95
Granted	84,000	1.83

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Forfeited	(3,100)	4.33
Vested	(16,764)	5.04
Outstanding as of December 31, 2011	308,025	\$ 3.31
Granted	154,926	0.38
Forfeited	(5,171)	4.27
Vested	(14,429)	5.02
Outstanding as of December 31, 2012	443,351	2.96

The fair value of restricted shares was determined to be the market value of the common shares on the date of grant.

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. Included in the 154,926 restricted shares granted during 2012 are 70,000 shares that would vest based on certain performance conditions. Included in the 470,000 restricted shares granted during 2010 are 450,000 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, 2010, 2011 and 2012 was \$947,505, \$817,673 and \$668,654, respectively.

As of December 31, 2012, total unrecognized share-based compensation expenses related to non-vested share options and non-vested restricted shares granted under the Plan amounted to \$820,176. Such unrecognized expenses are expected to be recognized over 2.5 years.

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17. 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 labour 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, 2010, 2011 and 2012 were \$1,431,972, \$1,566,848 and \$1,682,720, respectively.

18. 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 2010, 2011 and 2012 was \$1,660,007, \$1,651,398 and \$1,565,110, respectively.

As of December 31, 2012, 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,	
2013	\$ 935,023
2014	322,932
2015	179,356
2016	24,147
2017	13,236
2018 and thereafter	29,995
	\$ 1,504,689

(b) Other commitments

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The Group has entered into several agreements to pay media costs for periods of 5 to 10 years. As of December 31, 2012, future minimum purchase commitments under these agreements totalled approximately \$265,276,000, which will be payable as follow:

Year ending December 31,		
2013	\$	75,212,000
2014		72,289,000
2015		64,206,000
2016		21,508,000
2017		11,941,000
2018 and thereafter		20,120,000
	\$	265,276,000

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18. COMMITMENTS AND CONTINGENCY - continued

(c) Litigation with former shareholders of DMG

The Company filed a summons with notice in the Supreme Court of the State of New York, which is the trial court there (the New York Court) on December 27, 2010 against the selling shareholders and former management of DMG. The summons with notice alleged that the selling shareholders of DMG (i) engaged in an unlawful scheme to induce the Group, through false, deceptive, and misleading statements concerning DMG's financial condition and performance, to pay a grossly inflated price to purchase DMG in 2010, and (ii) received, or are scheduled to receive, ill-gotten gains from this unlawful scheme. The summons with notice further alleged that the Group is owed indemnification from an escrow fund, established at the time of the purchase, as a result of breaches of representations and warranties contained in the merger agreement pursuant to which we acquired DMG (the Merger Agreement). The claims summarized in the summons with notice were set forth in a more detailed complaint filed by the Company on February 2, 2011.

On February 25, 2011, Gobi Partners, Inc., Gobi Fund, Inc., Gobi Fund II, L.P., Oak Investment Partners XII, L.P., and Thomas Gai Tei Tsao (collectively, the Former DMG Shareholders) filed a countersuit in the New York Court against by the Company. The complaint in that lawsuit alleges that the Company breached certain agreements related to the DMG Acquisition by (i) declining to make certain installment payments that the Former DMG Shareholders claim they were entitled to receive and (ii) declining to take steps to facilitate the transfer of Company stock that the Former DMG Shareholders claim to be entitled to receive in connection with the DMG Acquisition. The Former DMG Shareholders also seek specific enforcement of the contracts at issue, compensatory damages in an amount to be determined at trial, and permanent and preliminary injunctive relief compelling the Company to comply with the parties' agreement. The Company denied the material allegations of the complaint by the Former DMG Shareholders and asserted a counterclaim for breach of contract arising from the destruction of DMG's electronic data prior to deliver to the Company.

Also on February 25, 2011 the Former DMG Shareholders filed motions against the Group for various relief. They sought to dismiss most of the claims in the Company's complaint as well as the Company's counterclaim based on destruction of DMG's electronic data. They also sought (i) an order of attachment against the Company in the amount of \$30 million plus interest, on account of a post-closing payment of that amount which the Former DMG Shareholders alleged to be due, and (ii) an order directing the Company to transfer assets into the United States to secure a prospective judgment. The Former DMG Shareholders also filed a motion for a preliminary injunction to compel the Company to remove the restrictive legend on the Company's ordinary shares received by the Former DMG Shareholders in connection with the DMG Acquisition, and to provide consents or authorizations to convert those shares into freely tradable American Depository Shares.

On November 3, 2011 the New York Court decided the pending motions in the above lawsuits. It granted the motion to dismiss the Group's fraud, unjust enrichment and declaratory judgment claims, as well as the Group's breach of contract claim based on the destruction of DMG's

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electronic data. The New York Court denied the Former DMG Shareholders' motion to dismiss the Group's indemnification claim for not less than \$2,785,633 but granted their motion to attach the Group's assets in the amount of \$30 million plus interest, as security in the event the Former DMG Shareholders were successful in their monetary claims against the Group. The ruling also required the Former DMG Shareholders to file a \$500,000 undertaking in the event that it is ultimately determined that they were not entitled to the attachment. Finally, the New York Court denied the Former DMG Shareholders' request to compel the Group to release the restrictions on the stock certificates they received, noting that any injury they may have suffered as a result of the alleged failure to release those restrictions would be compensable in monetary damages.

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18. COMMITMENTS AND CONTINGENCY - continued

(c) Litigation with former shareholders of DMG - continued

On November 11, 2011 the Group filed an appeal from the New York Court's orders.

On November 21, 2011 the Former DMG Shareholders filed a motion for partial summary judgment in the New York Court, seeking a judgment against the Company of \$60 million plus interest for the Company's failure to make \$60 million in post-closing payments claimed to be due for the DMG Acquisition. They also filed a motion to confirm the order of attachment previously entered in the amount of \$30 million plus interest.

On August 13, 2012 the New York Court entered an order (the August 13 Order) directing the Group, on or before August 21, 2012 (a) to transfer \$60 million in assets readily convertible into U.S. currency into New York State, to be held in the custody of the New York City Sheriff's Office, (b) to deposit \$60 million into an escrow account controlled by the Sheriff, or (c) to make other arrangements satisfactory to the plaintiffs in the litigation for security with respect to the final judgment plaintiffs seek in that amount. The Group took prompt steps to comply with the August 13 Order and have arranged for the delivery to the Sheriff of more than \$3.2 million in cash denominated in or convertible to U.S. dollars that were held by or for the Group outside the PRC and such transferred amount was recorded as restricted cash as of December 31, 2012. With respect to funds held within the PRC in RMB, any transfer to the Sheriff in New York requires approval of the relevant authority of the PRC government, the State Administration on Foreign Exchange (S.A.F.E.). Accordingly, on August 20, 2012 the Company applied to the S.A.F.E. for such approval, for the transfer of the balance required under the August 13 Order (an amount equivalent to approximately \$56.8 million). S.A.F.E., however, denied the application. At the same time as taking steps to comply with the August 13 order to the extent possible, the Company has appealed from that order. It sought a stay of enforcement of the August 13 Order, but that request was denied, first by a single judge of the appellate court on August 17, 2012 and then by a full panel of that court on October 2, 2012. The Company has perfected its appeal from the August 13 Order.

On October 21, 2012, Former DMG Shareholders filed a contempt motion in the New York Court against the Group for failure to transfer \$60 million into New York State by August 21, 2012 as directed in the August 13 Order.

On January 7, 2013, the New York State Supreme Court issued an order of civil contempt against the Group that it had failed to comply fully with an August 13, 2012 turnover order requiring the Group to post security in connection with prejudgment orders of attachment totaling \$60 million. The turnover order required the Group to pay that amount to the New York City Sheriff or enter into an escrow of the funds in the PRC

or alternative security arrangement acceptable to plaintiffs. Although the Group arranged to transfer to the Sheriff most of the assets of its subsidiaries located outside the PRC (about \$4.5 million), the Group had advised the judge that it was not able to transfer additional assets held by its PRC subsidiaries because of restrictions of S.A.F.E.

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18. COMMITMENTS AND CONTINGENCY - continued

(c) Litigation with former shareholders of DMG - continued

On February 19, 2013 the New York State Supreme Court entered a modified order (the February 19 Order), adding to the terms of the August 13 Order the alternative provision that the Group may deposit in escrow, with the Jun He Law Offices as escrow agent, an amount of Chinese currency equivalent to \$60 million less the amount currently on deposit of approximately \$4.5 million with the New York City Sheriff's Office, to be held in escrow until a final judgment in this action or a settlement between the parties resolving the action. However, the Jun He Law Offices have informed the New York Court that they were not willing to serve as escrow agent and the Company had been advised that any escrow of funds to be held in PRC pursuant to an agreement that contemplates the possibility of ultimate transfer of Chinese currency outside of PRC requires approval of S.A.F.E. The contempt sanction was a fine of \$250 plus payment of the plaintiffs' attorneys' fees incurred on the contempt application. The plaintiffs' attorneys' fee was estimated to be \$282,000 (however, as explained below, the amount actually awarded was US\$185,892 in plaintiff's attorney's fee in addition to a \$250 fine, a total of \$186,142). The Group filed a notice of appeal from that Contempt Order on March 15, 2013.

On May 16, 2013, the New York Court ordered the Group to pay Former DMG Shareholders US\$250 fine plus plaintiffs' costs and reasonable attorneys' fees in the amount of US\$185,892. Such amount is fully accrued as of December 31, 2012 and included in accrued expenses and other current liabilities.

The Company believes that the Former DMG Shareholders' claims and related motions are without merit and intend to vigorously defend the claims and oppose the motions. Management believes it is difficult to assess the prospects for the pending motions and unable to predict the ultimate outcome of the matter. Management notes, however, that the exposure of the Company includes the following possible outcomes, if not overturned on appeal:

- a) the Former DMG Shareholders' motion for summary judgment might be granted, and they might obtain a judgment in the amount of \$60 million plus interest;
- b) the Former DMG Shareholders might be successful in obtaining (i) an order requiring the Group to release the restrictive legend on the stock that the Former DMG Shareholders received in consideration for the DMG Acquisition or (ii) damages arising out of the failure to remove the restriction;

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- c) the Group might not succeed in recovering on its claim with respect to the indemnity escrow (in which it seeks \$2,785,633), and the Former DMG Shareholders might succeed in compelling the escrow to be turned over to them; and
- d) the orders of attachment might be confirmed.

Although the Company continues to claim in the pending litigation in the New York Court, and expect to an appeal that no further consideration should be paid to the Former DMG Shareholders, the consideration provided for in the Merger Agreement has been fully provided for in the consolidated financial statements (See Note 3). In addition, an accrued interest of \$9,368,145 on the unpaid but challenged post-closing consideration of \$60 million provided for in the Merger Agreement has been recorded and included in accrued expenses and other current liabilities (See Note 13). The Company has made these provisions because management considers that, unless the Company succeeds on appeal, payment of such amounts is probable based on the November 3, 2011 order of the New York Court. Management estimates that the further potential loss that could result from this litigation may be as much as \$67 million as of date of this report, but management considers such potential loss merely reasonably possible but not probable in accordance to ASC 450, due to uncertainty and therefore no provision was made for such amount as of December 31, 2012. The litigation is still in progress as of the date of this report.

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18. COMMITMENTS AND CONTINGENCY - continued

(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 December 31, 2012, 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 6 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 in 3 of the 6 cities that have not yet completed the conversion. The total cost of converting the equipment to the National Standard in these 3 cities is not expected to exceed \$0.5 million. However, the Group and its local operating partners in these 3 cities have not yet determined the allocation of such capital expenditures, and there is no reliable basis for management to accurately estimate the amount and timing of capital expenditures required for these local operating partners, therefore, no accrual for such liability has been made in the consolidated financial statements.

19. SEGMENT AND GEOGRAPHIC INFORMATION

The Group operates and manages its business as a single segment. 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, Shanghai, 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. The Group had contracted with the following advertisers or advertising agents that accounted for 10% or more of the total advertising service revenue:

	2010	Percentage of revenue 2011	2012
Customer A	10.6%	N/A	N/A

There is no accounts receivable from individual customers with balances over 10% of the total accounts receivable as of December 31, 2011 and one customer accounted for 11% of the accounts receivable as of December 31, 2012.

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20. RELATED PARTY TRANSACTIONS

(a) Details of amounts due from related parties as of December 31, 2011 and 2012 are as follows:

	2011	December 31, 2012
Chengdu Mobile	\$ 76,579	\$ 43,665
Changzhou Mobile	37,819	43,665
DMG Chongqing	566,724	447,679
Eastlong Huatong		325,632
Guangdong Mobile	17,710	
Haerbin Mobile	332,170	
Hubei Mobile	111,014	253,751
Jilin Mobile	300,662	272,749
Ningbo Mobile		103,126
Shenzhen Mobile	176,849	39,073
Suzhou Mobile	72,415	
Zhongguanguoji	176,745	
Director and management of the Company	394,352	600,226
A non-controlling shareholder	181,037	18,515
	\$ 2,444,076	\$ 2,104,416

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, 2011 and 2012 are as follows:

	2011	December 31, 2012
Changzhou Mobile	\$ 2,522	\$ 437,773
Chengdu Mobile		437,773
Dalian Mobile	128,033	
Eastlong Huatong	6,170	

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Haerbin Mobile	4,054		
Henan Mobile	76,972		36,963
Hubei Mobile	4,532		
Ningbo Mobile	238,200		
Shenzhen Champs Elysees Renovations Co., Ltd. (Champs Elysees)	3,679		4,085
Shenzhen Meidi Zhiye Development Co., Ltd. (Zhiye)	83,069		7,669
Suzhou Mobile			446,615
Wuxi Guangtong			197,981
Zhongguanguoji	868,450		697,326
	\$	1,415,681	\$
			1,828,412

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 receipt of services rendered by related parties) and payments of expenses on behalf of the related parties.

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20. **RELATED PARTY TRANSACTIONS** - continued

(c) Advertising equipment sales (to) from investee companies

The Group sold digital equipment at negotiated price to related parties for a total amount of nil, \$219,918 and \$747,550 for the years ended December 31, 2010, 2011 and 2012, respectively. Details are as follows:

Year ended December 31,