

VISIONCHINA MEDIA INC.

Form F-1

August 01, 2008

[Table of Contents](#)

As filed with the Securities and Exchange Commission on August 1, 2008

Registration No. 333-

# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

## FORM F-1

## REGISTRATION STATEMENT

*UNDER*

*THE SECURITIES ACT OF 1933*

## VISIONCHINA MEDIA INC.

(Exact name of Registrant as specified in its charter)

Not Applicable

(Translation of Registrant's name into English)

(State or other jurisdiction of  
incorporation or organization)

(Primary Standard Industrial  
Classification Code Number)

**Not  
Applicable  
(I.R.S.  
Employer**

**Identification  
Number)**

**1/F Block No.7 Champs Elysees**

**Nongyuan Road, Futian District**

**Shenzhen 518040**

**People's Republic of China**

**(86-755) 8293-2222**

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

**CT Corporation System**

**111 Eighth Avenue**

**New York, New York 10011**

**(212) 664-1666**

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

*Copies to:*

**Chris K.H. Lin**

**Simpson Thacher & Bartlett LLP**

**35<sup>th</sup> Floor, ICBC Tower**

**3 Garden Road, Central**

**Hong Kong**

**(852) 2514-7600**

**Chun Wei**

**Sullivan & Cromwell LLP**

**28<sup>th</sup> Floor**

**Nine Queen's Road, Central**

**Hong Kong**

**(852) 2826-8688**

## Edgar Filing: VISIONCHINA MEDIA INC. - Form F-1

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

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

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

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

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

### CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered <sup>(1)(2)</sup>	Amount to be registered	Proposed maximum offering price per common share <sup>(3)</sup>	Proposed maximum aggregate offering price <sup>(3)</sup>	Amount of registration fee
Common shares, par value US\$0.0001 per share	8,000,000	US\$22.04	US\$176,320,000.00	US\$6,929.38

- (1) American depositary shares evidenced by American depositary receipts issuable upon deposit of the common shares registered hereby have been registered under a separate registration statement on Form F-6 (Registration No. 333-147272). Each American depositary share represents one common share.
- (2) Includes (i) common shares represented by American depositary shares initially offered and sold outside the United States that may be resold from time to time in the United States either as part of their distribution or within 40 days after the later of the effective date of this registration statement and the date the shares are first bona fide offered to the public and (ii) common shares represented by American depositary shares that may be purchased by the underwriters pursuant to an option to purchase additional shares. These common shares are not being registered for the purpose of sales outside the United States.
- (3) Estimated solely for the purpose of computing the amount of registration fee in accordance with Rule 457(c) under the Securities Act of 1933, as amended, based on the average of the high and low sale prices as reported by the Nasdaq Global Market on July 29, 2008.

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



offense.

**Credit Suisse**

**Morgan Stanley**

**Merrill Lynch & Co.**

**Oppenheimer & Co.**

**Susquehanna Financial Group, LLLP**

The date of this prospectus is \_\_\_\_\_, 2008

**Table of Contents**

**TABLE OF CONTENTS**

	<b>Page</b>
<u>Prospectus Summary</u>	1
<u>The Offering</u>	8
<u>Risk Factors</u>	12
<u>Forward-Looking Statements</u>	40
<u>Use of Proceeds</u>	41
<u>Dividend Policy</u>	42
<u>Market Price of Our American Depositary Shares</u>	43
<u>Capitalization</u>	44
<u>Exchange Rate Information</u>	45
<u>Enforceability of Civil Liabilities</u>	46
<u>Our Corporate Structure</u>	47
<u>Selected Condensed Consolidated Financial Data</u>	51
<u>Recent Developments</u>	53
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	59
<u>Our Industry</u>	81
<u>Business</u>	85
<u>Regulation</u>	101
<u>Management</u>	108
<u>Principal and Selling Shareholders</u>	115
<u>Related Party Transactions</u>	118
<u>Description of Share Capital</u>	122
<u>Description of American Depositary Shares</u>	130
<u>Shares Eligible for Future Sale</u>	139
<u>Taxation</u>	141
<u>Underwriting</u>	147
<u>Legal Matters</u>	154
<u>Experts</u>	154
<u>Where You Can Find Additional Information</u>	154
<u>Index to Consolidated Financial Statements</u>	F-1

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

**Table of Contents**

**PROSPECTUS SUMMARY**

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

**VisionChina Media Inc.**

**Our Business**

We believe that we operate the largest out-of-home advertising network using real-time mobile digital television broadcasts to deliver content and advertising on mass transportation systems in China based on the number of displays. We operate our advertising business in China through our consolidated affiliated entity, China Digital Mobile Television Co., Ltd., or CDMTV, due to PRC regulatory restrictions on foreign investments in the advertising and mobile digital television industries. Our relationships with CDMTV and its shareholders are governed by a series of contractual arrangements that allow us to effectively control, and derive substantially all of the economic benefits from, CDMTV. Our mobile digital television advertising network, or our network, which delivers real-time content provided by the local television stations in addition to advertising, differentiates us from other out-of-home advertising networks in China, and we believe this facilitates our future expansion into different advertising media platforms. Our advertising network consists of digital television displays located on buses and in other selected locations, such as in subway trains in Beijing, that receive mobile digital television broadcasts of real-time content and advertising. As a supplement to our mobile digital television advertising network, we also operate a stationary advertising platform in subway stations in three major cities in China: Guangzhou, Shanghai (since July 1, 2008) and Shenzhen. As of June 30, 2008, our network and stationary advertising platform covered 16 cities in China and consisted of approximately 60,160 digital displays. In addition, we have expanded the geographic reach of our advertising operations by purchasing advertising time on existing mobile digital television networks in cities outside of our network to place advertisements pursuant to the demands of our clients.

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

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

We principally derive revenues by selling advertising time during breaks in between the programs on our network and stationary 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.

---

## **Table of Contents**

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

***Exclusive agency model*** refers to our arrangements, with terms typically ranging from four years to 12 years, in 12 cities: Beijing, Changchun, Chengdu, Dalian, Guangzhou, Nanjing, Ningbo, Shenyang, Shenzhen, Taiyuan, Wuhan and Wuxi. We have entered into an exclusive advertising agency agreement with the partner local mobile digital television company in each city that typically gives us the exclusive right to sell all of the advertising time on our local partner's mobile digital television network primarily located on buses. Those buses are operated by bus companies that have entered into contracts with our local partners or our local affiliates. In the case of Guangzhou, those buses also include buses operated by a bus company with which we expect to enter into a contract through our local affiliate in the future. Our exclusive agency arrangement in Wuxi that gives us the exclusive right to sell a portion of the advertising time on Wuxi's mobile digital television network does not include sales of advertising time to advertisers from Wuxi.

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

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

Through June 30, 2008, more than 590 advertisers had purchased advertising time on our mobile digital television advertising network or our stationary advertising platform, either directly or through an advertising agent. Our top three international and domestic brand name advertisers, Sanchine Pharmaceutical Co., Ltd., Nice Group Co., Ltd. and Coca-Cola Company, in aggregate accounted for approximately 32.0% of our advertising service revenues for the six months ended June 30, 2008. We generated total revenues of US\$33.9 million in the six months ended June 30, 2008, US\$29.4 million in 2007 and US\$3.9 million in 2006. We achieved a net income of US\$13.9 million for the six months ended June 30, 2008 and US\$9.4 million in 2007, compared to a net loss of US\$4.1 million in 2006.

## **Our Industry**

China has the largest advertising market in Asia, excluding Japan, and it is one of the largest and fastest-growing advertising markets in the world, according to ZenithOptimedia. The advertising market in China grew in recent years as a result of, among other factors, the rapid increase in disposable income and consumption of urban residents in China. The National Bureau of Statistics of China reported that the annual disposable income per capita in urban households increased from RMB8,472 in 2003 to RMB13,786 in 2007, representing a compound annual growth rate, or CAGR, of 12.9%. In Beijing, Guangzhou and Shenzhen, where we have major operations, the annual disposable income per capita in urban households in 2006 was RMB19,978, RMB19,851 and RMB22,567, respectively, representing a level significantly above the national average.

## **Table of Contents**

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

## **Our Competitive Strengths**

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

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

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

Exclusive and long-term contractual arrangements;

Effective advertising solutions with content; and

Strong management and sales team with extensive experience.

## **Our Strategies**

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

Expand the coverage and penetration of our national network;

Maximize our average revenues per hour;

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

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

Expand our network to other advertising media platforms; and

Pursue strategic relationships and acquisitions.

## **Our Challenges**

## Edgar Filing: VISIONCHINA MEDIA INC. - Form F-1

We face risks and uncertainties, including those relating to:

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

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

Our ability to manage our growth;

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

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

**Table of Contents**

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

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

**Corporate History and Structure**

We commenced operations in 2005 through CDMTV, a company established in China, and its subsidiaries and affiliates. In January 2006, we established a holding company, CDMTV Holding Company, under the laws of the Cayman Islands as part of our effort to raise capital from investors outside of China. On August 13, 2007, we changed our name to VisionChina Media Inc. On December 6, 2007, our ADSs were listed on the Nasdaq Global Market.

Due to PRC regulatory restrictions on foreign investments in the advertising and mobile digital television industries, we operate our advertising business in China through CDMTV. Our relationships with CDMTV and its shareholders are governed by a series of contractual arrangements that allow us to effectively control, and to derive substantially all of the economic benefits from, CDMTV. Accordingly, we treat CDMTV as a variable interest entity and have consolidated its historical financial results in our financial statements in accordance with United States generally accepted accounting principles, or U.S. GAAP.

The following diagram illustrates our company's organizational structure, and the place of formation and ownership interest of our principal subsidiaries as of the date of this prospectus:

**Table of Contents**

## **Table of Contents**

### **Recent Developments**

The following is a summary of our selected unaudited consolidated financial results for the six months ended June 30, 2008:

Total revenues increased to US\$33.9 million for the six months ended June 30, 2008 from US\$8.1 million for the six months ended June 30, 2007;

Gross profit increased to US\$19.2 million for the six months ended June 30, 2008 from US\$1.9 million for the six months ended June 30, 2007;

Operating profit amounted to US\$12.3 million for the six months ended June 30, 2008, compared to operating loss of US\$0.1 million for the six months ended June 30, 2007; and

Net income amounted to US\$13.9 million for the six months ended June 30, 2008, compared to net loss of US\$0.1 million for the six months ended June 30, 2007.

In the first six months of 2008, we have expanded our mobile digital television advertising network with additional exclusive agency arrangements in Changchun, Chengdu, Dalian, Ningbo, Shenyang, Taiyuan and Wuhan. We have also expanded our stationary advertising platform into Shanghai in July 2008. In addition, we raised the rate cards for our advertising time in May and July 2008.

For additional information regarding our recent developments, see Recent Developments.

### **Corporate Information**

Our principal executive offices are located at 1/F Block No. 7, Champs Elysees, Nongyuan Road, Futian District, Shenzhen 518040, People's Republic of China. Our telephone number at this address is (86 755) 8293-2222 and our fax number is (86 755) 8298-1111. Our registered office in the Cayman Islands is located at the offices of Maples Corporate Services Limited, PO Box 309, Uglund House, South Church Street, George Town, Grand Cayman KY1-1104, Cayman Islands, British West Indies. Our agent for service of process in the United States is CT Corporation System, located at 111 Eighth Avenue, New York, New York 10011, U.S.A.

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

### **Conventions Which Apply to This Prospectus**

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

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

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

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

buy advertising time;

**Table of Contents**

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

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

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

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

**Table of Contents**

**The Offering**

Offering price US\$ per ADS

Total ADSs offered 8,000,000 ADSs

ADSs offered by us 1,000,000 ADSs

ADSs offered by the selling shareholders 7,000,000 ADSs

ADSs outstanding immediately after this offering ADSs

Common shares outstanding immediately after this offering common shares

The number of common shares that will be outstanding immediately after this offering:

excludes 3,663,065 common shares issuable upon the exercise of options outstanding as of the date of this prospectus, at a weighted average exercise price of US\$4.57 per share; and

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

Nasdaq Global Market symbol VISN

The ADSs Each ADS represents one common share, par value US\$0.0001 per share.

The depositary will hold the common shares underlying your ADSs. You will have the rights as provided in the deposit agreement.

If, however, we declare dividends on our common shares, the depositary will pay you the cash dividends and other distributions it receives on our common shares, after deducting its fees and expenses.

You may surrender your ADSs to the depositary in exchange for common shares. The depositary will charge you fees for any exchange.

Edgar Filing: VISIONCHINA MEDIA INC. - Form F-1

We may amend or terminate the deposit agreement without your consent. If you continue to hold your ADSs, you agree to be bound by the deposit agreement as amended.

To better understand the terms of the ADSs, you should carefully read the section of this prospectus entitled Description of American Depositary Shares. You should also read the deposit agreement, which is filed as an exhibit to the registration statement that includes this prospectus.



**Table of Contents****Our Summary Condensed Consolidated Financial and Operating Data**

The following summary condensed consolidated statement of operations data for the period from April 8, 2005 (date of inception) to December 31, 2005 and for the years ended December 31, 2006 and 2007 and the summary condensed consolidated balance sheet data as of December 31, 2006 and 2007 have been derived from our audited consolidated financial statements, which are included elsewhere in this prospectus. The following summary condensed consolidated balance sheet data as of December 31, 2005 have been derived from our audited consolidated financial statements, which are not included elsewhere in this prospectus. Our consolidated financial statements are prepared and presented in accordance with U.S. GAAP and have been audited by Deloitte Touche Tohmatsu CPA Ltd., an independent registered public accounting firm.

You should read the summary condensed consolidated financial data in conjunction with those financial statements and the related notes and the Management's Discussion and Analysis of Financial Condition and Results of Operations section of this prospectus. Our historical results do not necessarily indicate our results expected for any future periods.

	For the Period	For the Year Ended December 31,	
	from April 8, 2005 (date of inception) to December 31, 2005	2006	2007
	(US\$, except number of shares)		
<b>Condensed Consolidated Statement of Operations Data:</b>			
Revenues			
Advertising service revenues		2,033,284	27,489,391
Advertising equipment revenues	290,521	1,839,598	1,896,200
Total revenues	290,521	3,872,882	29,385,591
Cost of revenues			
Advertising service cost		3,967,081	12,801,957
Advertising equipment cost	261,504	1,639,895	1,583,325
Total cost of revenues	261,504	5,606,976	14,385,282
Gross profit (loss)	29,017	(1,734,094)	15,000,309
Operating expenses			
Government grant		125,953	
Loss from equity method investees	(104,475)	(469,841)	(1,262,273)
Operating profit (loss)	(461,673)	(4,145,273)	8,639,460
Interest income	45,264	98,873	505,888
Other expenses		(22,608)	(95,719)
Net income (loss) before income taxes	(416,409)	(4,069,008)	9,049,629
Income tax credit			332,386
Minority interest			11,343
Net income (loss)	(416,409)	(4,069,008)	9,393,358
Deemed dividend on convertible redeemable preferred shares		1,583,333	6,625,262
Net income (loss) attributable to holders of common shares	(416,409)	(5,652,341)	2,768,096
Net income (loss) per common share:			

Edgar Filing: VISIONCHINA MEDIA INC. - Form F-1

Basic	(0.02)	(0.26)	0.11
Diluted	(0.02)	(0.26)	0.11
Shares used in computation of net income (loss) per share:			
Basic	22,000,000	22,000,000	24,709,522
Diluted	22,000,000	22,000,000	25,771,702
Share-based compensation expenses during the related periods included in:			
Cost of revenues		37,576	34,431
Selling and marketing expenses		5,374	135,722
General and administrative expenses		35,802	51,209

**Table of Contents**

	2005	As of December 31, 2006 (US\$)	2007
<b>Condensed Consolidated Balance Sheet Data:</b>			
Cash and cash equivalents	2,599,078	5,215,693	131,139,659
Total assets	6,040,923	17,043,776	175,300,276
Total current liabilities	247,117	1,241,783	10,618,779
Total shareholders' equity	5,793,806	581,666	164,028,819

	2005	As of December 31, 2006	2007	As of June 30, 2008
<b>Selected Operating Data:</b>				
Number of digital television displays in our mobile digital television advertising network	667	16,809	41,202	57,252
Number of digital displays in our stationary advertising platform			208	2,908
Total number of digital displays	667	16,809	41,410	60,160

	For the Year Ended December 31,		For the Six Months Ended June 30,
	2006	2007	2008
Total hours of broadcasting <sup>(1)</sup>	30,640	77,925	55,502
Average revenue per hour <sup>(1)(2)</sup> (US\$)	56	341	583
Average advertising minutes sold per hour	1.08	7.04	7.25

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

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

---

**Table of Contents**

**RISK FACTORS**

*You should consider carefully all of the information in this prospectus, including the risks and uncertainties described below and our consolidated financial statements and related notes, before making an investment in our ADSs. Any of the following risks could have a material adverse effect on our business, financial condition and results of operations. In any such case, the market price of our ADSs could decline, and you may lose all or part of your investment.*

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

**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 in Beijing and Shenzhen in October and December 2006, respectively. Accordingly, we have a very limited operating history upon which you can evaluate the viability and sustainability of our business and its acceptance by advertisers and consumers. It is also difficult to evaluate the viability of our mobile digital television advertising network on mass transportation systems because we do not have sufficient experience to address the risks frequently encountered by early stage companies using new forms of advertising media and entering new and rapidly evolving markets. These circumstances may make it difficult for you to evaluate our business and prospects. In addition, due to our short operating history and recent additions to our management team, some of our senior management and employees have only worked together at our company for a relatively short period of time. As a result, it may be difficult for you to evaluate the effectiveness of our senior management and other key employees and their ability to address future challenges to our business.

**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 mobile digital television standards, all mobile digital television operations must comply with such national standards; and

existing mobile digital 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. 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.

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



---

**Table of Contents**

regulations applicable to mobile digital television operations, including the March 2006 Notice. Furthermore, the mobile digital television industry is encouraged under the Eleventh Five-Year Plan (2006–2010) of the PRC government. To date, our local mobile digital television operating partners in Shenzhen, Beijing, Zhengzhou, Guangzhou, Ningbo and Shenyang have obtained SARFT approvals for operating mobile digital television networks in these cities. However, our local operating partners in cities other than those six cities are currently in violation of the March 2006 Notice by operating mobile digital television networks without the required approval from SARFT. Because our local mobile 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 as of the date hereof, 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. We cannot assure you, however, that SARFT or its local branches will not order any of our local operating partners to stop their operations. If any of our local operating partners are ordered to stop their mobile digital television operations, we may not be able to continue our advertising business in the affected city through other media or channels at acceptable costs, or at all. In that case, our business, financial condition and results of operations would be materially and adversely affected.

**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 comply with the newly adopted PRC national standards for mobile digital television operations. If and when our local mobile digital television operating partners and our direct investment entities are required to comply with the national standards, we may spend significant capital and other resources.**

Our local operating partners have adopted three different digital television technology standards in operating their networks. In addition, our direct investment entities have installed digital television receivers that were made in conformity with the technology standards our local operating partners have adopted. The National Standard of Frame Structure and Channel Code and Modulation of Digital Television Ground Broadcasting Transmission System, or the National Standard, was approved by the Standardization Administration of the PRC on August 18, 2006, and became effective on August 1, 2007. Under the March 2006 Notice, all of our local operating partners must adopt the National Standard for their mobile digital television operations. As of the date of this prospectus, a significant portion of the mobile digital television network of our direct investment entities and the digital television broadcasting infrastructure of our local operating partners are not in compliance with the National Standard. Our direct investment entities and our local operating partners will be required to spend significant capital and other resources on new equipment to bring their operations in compliance with the National Standard. Under our exclusive advertising agency agreements, we are responsible for the portion of such expenditures relating to the displays. Neither the March 2006 Notice nor the National Standard provides a specific timeline for full compliance with the National Standard. We are unable to accurately estimate the amount and timing of capital expenditures required for us to comply with the National Standard. Furthermore, during the period when new technology and equipment are installed, no programming or advertising can be broadcast, which will disrupt our advertising business. If the PRC regulatory authorities set a tight time table for compliance with the National Standard or if the purchase of equipment required for such compliance involves substantial expenditure, our business, financial condition and results of operations would be materially and adversely affected.

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

PRC advertising laws and regulations require advertisers, advertising operators and advertising distributors, including businesses such as ours and our local operating partners, to ensure that the content of the advertisements they prepare or distribute is fair, accurate and in full compliance with applicable laws, rules and regulations. Violation of these laws, rules or regulations may result in penalties, including fines, confiscation of

## **Table of Contents**

advertising fees, orders to cease dissemination of the advertisements and orders to publish an advertisement correcting the misleading information. In circumstances involving serious violations, the PRC government may revoke a violator's license for its advertising business operations.

As an operator of an advertising medium, we are obligated under PRC laws, rules and regulations to monitor the advertising content aired on our network or stationary advertising platform for compliance with applicable laws. Although the advertisements shown on our network generally have previously been broadcast over public television networks and have been subjected to internal review and verification by these broadcasters, we are required to separately and independently review and verify these advertisements for content compliance before displaying these advertisements. In addition, for advertising content related to special types of products and services, such as alcohol, cosmetics, pharmaceuticals and medical procedures, we are required to confirm that the advertisers have obtained requisite government approvals including the 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 stationary advertising platform are provided to us by our advertising clients in violation of relevant PRC content laws and regulations, or if the supporting documentation and government approvals provided to us by our advertising clients in connection with such advertising content are not complete, or if the advertisements that our local operating partners have broadcast on our network have not received required approvals from the relevant local supervisory bodies, or if the advertisements are not content compliant.

All forms of outdoor advertisements must be registered before dissemination with the local branches of the State Administration of Industry and Commerce, or SAIC, which regulates advertising companies, and advertising distributors are required to submit a registration application form as well as the content of the advertisement to the local SAIC branch in order to receive an advertising registration certificate. The applicable PRC laws and regulations are not clear as to whether advertising on public transportation systems or other out-of-home locations would be considered outdoor advertising. In practice, local SAIC branches have discretion in determining whether such advertising constitutes outdoor advertising which would require registration with the relevant local SAIC branch. Local SAIC branches in different regions of the PRC may reach different conclusions with respect to this issue and such conclusions may also be subject to further revisions or amendments. Our PRC legal counsel has advised us that local SAIC branches in eight of the cities where we operate our advertising business, namely Dalian, Guangzhou, Harbin, Nanjing, Shenzhen, Suzhou, Wuxi and Zhengzhou, require that advertising on public transportation systems or other out-of-home locations be registered as outdoor advertising. We would need our local operating partners' cooperation to effect the required registrations. Our direct investment entities in Harbin and Zhengzhou have completed the required registrations. Our direct investment entities in Dalian and Suzhou and our local operating partner in Shenzhen are in the process of completing the required registration. However, our local operating partners in Guangzhou, Nanjing and Wuxi have advised us that they do not believe such registrations are necessary. If advertising on public transportation systems or other out-of-home locations is determined by a local SAIC branch to be outdoor advertising and a registration is not effected as required by the local SAIC branch, our local operating partner or direct investment entity in the jurisdiction city of the local SAIC branch would be subject to a fine and may be ordered to stop disseminating the advertisements and as a result, our business in that city would be materially and adversely affected, which may have a material and adverse effect in our overall business.

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

---

## **Table of Contents**

In addition, if the security of the broadcasting network we use to send our signals is breached despite the efforts of our local operating partners to ensure the security of the content management system, and unauthorized images, text or audio sounds are displayed on our advertising network, viewers or the PRC government may find these images, text or audio sounds to be offensive, which may subject us to civil liability or government censure. Any such event may also damage our reputation. If our advertising viewers do not believe our content is reliable or secure, our business model may become less appealing to viewers in China and our advertising clients may be unwilling to place advertisements on our advertising network.

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

SARFT promulgated Interim Measures of Administration of Advertisement Broadcasting of Radio and Television in 2003 that became effective on January 1, 2004. This regulation is applicable to advertisement broadcasting on all radio and television stations and channels. This regulation contains a number of restrictions, including that the total advertising time of a radio or television station or channel shall not be greater than 20% of its total broadcasting time each day. On average we sold 7.25 advertising minutes per broadcasting hour in the six months ended June 30, 2008. Our PRC counsel has advised us that the provisions of this regulation restricting advertising time are only applicable to traditional radio and television broadcasting and that as of the date hereof, SARFT has not indicated that this regulation shall apply to mobile digital television. As a result, we believe that this regulation is not applicable to the mobile digital television industry. However, SARFT may determine that this regulation is applicable to the mobile digital television industry or promulgate new rules that are similar to this regulation to regulate or restrict the advertising time of mobile digital television networks. If any of these events occur, the total advertising time on our network will be limited and, as a result, our business and prospects could be materially and adversely affected.

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

Our ability to generate revenues from advertising sales depends largely upon our ability to air advertisements on large mobile digital television networks on mass transportation systems in cities. This, in turn, requires that we develop and maintain business relationships with local television stations, local mobile digital television companies, local governments, and mass transportation services through which we obtain programming, broadcasting and space for our mobile digital television advertising networks. As of June 30, 2008, we provided advertising services through our network and stationary advertising platform with approximately 60,160 digital displays in 16 cities in China. We have entered into 12 exclusive advertising agency arrangements and 11 direct investment arrangements. We cannot assure you that we can maintain these relationships on satisfactory terms, or at all. Our local operating partners may unilaterally terminate our agreements with them before the expiration of these agreements if there are events of *force majeure* or if we have breached the agreements. For example, our agreement with our local operating partner in Beijing requires us to install digital television displays in new buses pursuant to the terms of the agreement between our local operating partner in Beijing and the local bus company in Beijing. If we fail to perform our contractual obligations, we will be in breach of our agreement and our local operating partner may unilaterally terminate our agreement. If we fail to maintain relationships with our local operating partners, advertisers may find advertising on our network unattractive and may not purchase advertising time from us, which would cause our revenues to decline and our business and prospects to deteriorate.

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

We operate in 11 cities through direct investment entities formed with the local television stations. PRC law provides that the television stations or entities controlled by them must own no less than 51% of the

---

## **Table of Contents**

equity interests in any mobile digital television operating company. We own a 49% equity interest in those direct investment entities, except the direct investment entity in Shenzhen in which we own a 25% equity interest and the direct investment entity in Wuxi in which we own a 14% equity interest. Most of our direct investment agreements provide that we have the right to nominate the general manager of the direct investment entity, who will be in charge of the day-to-day operations of the direct investment entity. Our local operating partners, the local television stations, control the broadcasting and are responsible for compliance matters. We cannot assure you that disputes will not arise between us and our local operating partners, and that any such disputes will be resolved in our favor. Further, our interests and the interests of our local operating partners may be different. In some cases, we may have to rely on court proceedings to resolve the disputes between us and our local operating partners. Any litigation will divert our resources and may result in a judgment against us. If any dispute between us and our local operating partners arises, our business operations could be harmed, and our financial condition and results of operations could be materially and adversely affected.

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

In most of the cities where we operate, our business relationships with local bus companies or other selected operations are secured and provided by our local operating partners or our direct investment entities. Our operations on the stationary advertising platform in Guangzhou, Shanghai and Shenzhen are secured by our agreements with the subway companies in the three 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.

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

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

a general decline in economic conditions;

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

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

a decline in advertising spending in general.

A decrease in demand for advertising media in general, and for our advertising services in particular, would materially and adversely affect our ability to generate revenues, and 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

## **Table of Contents**

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. The process of establishing these relationships can be lengthy because mobile digital television is a relatively new form of media, and we often need to convince counterparties about the benefits of establishing a mobile digital television network on mass transportation systems. We may be required to commit substantial resources during this process, and counterparties may decide not to proceed with deployment. If these counterparties do not accept mobile digital television network as an effective medium on mass transportation vehicles, we may not be able to grow our business or our revenues.

Once a mass transportation company agrees to install our mobile digital television displays on their buses or other vehicles, we must invest substantial time and resources to install digital television displays before we receive any revenues from such efforts. Such investments typically include the purchase and the installation of digital television displays, or expenses relating to the acquisition of interests in the local direct investment entities. We may experience increased distribution and operations costs during and/or after deployment. We may also experience delays in revenue generation, if any, due to deployment delays or difficulties in selling advertising time to new or current advertisers to be aired on these buses and other mass transportation vehicles. We may be unable to generate sufficient revenues from advertising packages on these buses and other mass transportation vehicles to offset the related costs.

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

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

---

**Table of Contents**

**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 stationary advertising platform depend on the size and quality of our networks and the demand by advertisers for advertising time. Advertisers choose to advertise on our advertising network in part based on the size of the network and the desirability of the cities where we operate. If we fail to maintain or increase the number of cities, diversify advertising channels in our network, or solidify our brand name and reputation as a quality provider of advertising services, advertisers may be unwilling to purchase time on our network or to pay the advertising fees we require to remain profitable. Any significant decrease in demand could cause us to lower the prices we charge for advertising time on our network and could negatively affect our ability to increase revenues in the future.

**We 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 52.5% of our total revenues for the six months ended June 30, 2008. These and our other advertising clients may elect to terminate their relationships with us if they are not satisfied with our services. We 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

---

## Table of Contents

Focus Media Holding Limited, Towona Mobile Digital Co., Ltd., Bus Online Media Co., Ltd. and Digital Media Group. 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 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.

**Three 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 three cities.**

A substantial majority of our revenues are currently generated from our operations in three major cities in China: Beijing, Guangzhou and Shenzhen. These three cities in the aggregate accounted for 76.4% and 65.9% of our total advertising service revenues in 2007 and the six months ended June 30, 2008, respectively. We expect to continue to generate a substantial portion of our revenues from these three cities. If any of these cities experiences an event negatively affecting its mobile digital television advertising industry, such as a serious economic downturn, a decline in the use of mass transportation systems, changes in government policy, a natural disaster or changes in advertising preferences, our mobile digital television network, our stationary 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 any of these cities, our business, financial condition and results of operations would be materially and adversely affected.

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

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

our ability to maintain and increase sales to existing advertising clients, attract new advertising clients and satisfy our clients demands;

**Table of Contents**

the frequency of our clients' advertisements on our network;

the price we charge for our advertising time or changes in our pricing strategies or the pricing strategies of our competitors;

effects of strategic alliances, potential acquisitions and other business combinations, and our ability to successfully and timely integrate them into our business;

technical difficulties, system downtime or interruptions;

changes in government regulations in relation to the advertising industry; and

economic and geopolitical conditions in China and elsewhere.

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

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

We have been expanding our operations and plan to continue to expand rapidly in China. To meet the demand of advertisers for a broader network coverage, we must continue to expand our network by installing more digital television displays on buses and other mass transportation 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;

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;

## Edgar Filing: VISIONCHINA MEDIA INC. - Form F-1

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, training and retaining our personnel.

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

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

Our future success is dependent on the continued services of key members of our management team. In particular, our future success is dependent upon the continued service of Limin Li, our founder, chairman and

---

**Table of Contents**

chief executive officer and our largest shareholder. We rely on his experience in our business operations, and in particular, his business vision, management skills and working relationships with our employees, our other major shareholders, many of our clients and our local operating partners. We face competition for personnel from other mobile digital television advertising companies or general advertising companies and other organizations. Such competition for these individuals could cause us to offer higher compensation and other benefits in order to attract and retain them, which could materially and adversely affect our financial condition and results of operations. Furthermore, as we continue to expand our operations and develop new products, we will need to continue to attract and retain experienced management. We may be unable to attract or retain the personnel required to achieve our business objectives and failure to do so could severely disrupt our business and prospects. The process of hiring qualified personnel is also often lengthy. If our recruitment and retention efforts are unsuccessful in the future, it may be more difficult for us to execute our business strategy.

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

**We may not be able to recruit and retain key 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 June 30, 2008, we had 276 dedicated sales and marketing personnel and ten 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

## **Table of Contents**

substantial expenses in defending against these third party infringement claims, regardless of their merit. Successful infringement or licensing claims against us may result in substantial monetary liabilities, which may materially and adversely disrupt our business.

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

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

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

We may need additional cash resources due to changed business conditions or other future developments. If these sources are insufficient to satisfy our cash requirements, we may seek to sell additional equity or debt securities or obtain a credit facility. The sale of convertible debt securities or 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;

**Table of Contents**

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 risks.**

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

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 the expected synergies from future acquisitions will actually materialize. In addition, acquisitions could result in the incurrence of additional indebtedness, costs and contingent liabilities. For example, in connection with several acquisitions of advertising agency businesses completed by us in China in 2008, we are required to pay additional consideration if the acquired businesses meet specified performance targets in future years. These acquisitions may result in significant future payments by us. Future acquisitions may also expose us to potential risks, including risks associated with:

the integration of new operations, services and personnel;

unforeseen or hidden liabilities;

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

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

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

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

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

We believe our brand, trade name and other intellectual property are critical to our success. The success of our business depends in part upon our continued ability to use our brand, trade names and trademarks to increase brand awareness and to further develop our brand. The unauthorized reproduction of our trademarks could diminish the value of our brand and its market acceptance, competitive advantages or goodwill. In addition, our information and operational systems, which have not been patented or otherwise registered as our property, are a key component of our competitive advantage and our growth strategy.

## Edgar Filing: VISIONCHINA MEDIA INC. - Form F-1

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

## **Table of Contents**

unable to adequately protect our brand, trade names, trademarks and other intellectual property rights, we may lose these rights and our business may suffer materially. Further, unauthorized use of our brand, trade names or trademarks could cause brand confusion among advertisers and harm our reputation. If our brand recognition decreases, we may lose advertisers and fail in our expansion strategies, and our business, results of operations, financial condition and prospects could be materially and adversely affected.

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

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

### **We have limited insurance coverage for our operations in China.**

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

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

Based upon the past and projected composition of our income and valuation of our assets, including goodwill, we don't believe that we were a passive foreign investment company for 2007, and we do not expect to be a PFIC in 2008 or to become one in the foreseeable future, although there can be no assurance in this regard. If, however, we become a passive foreign investment company, such characterization could result in adverse U.S. tax consequences to you if you are a U.S. investor. For example, if we become a PFIC, our U.S. investors will become subject to increased tax liabilities under U.S. tax laws and regulations and will become subject to burdensome reporting requirements. Our PFIC status is determined on an annual basis and depends on the composition of our income and assets. Specifically, we will be classified as a PFIC for U.S. tax purposes if either: (i) 75% or more of our gross income in a taxable year is passive income, or (ii) the average percentage of our assets by value in a taxable year which produce or are held for the production of passive income (which includes cash) is at least 50%. The calculation of the value of our assets will be based, in part, on the then prevailing market value of our ADSs, which is subject to change. We cannot assure you that we will not be a PFIC for 2008 or any future taxable year.

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

Section 404 of the Sarbanes-Oxley Act, or Section 404, requires that we include a report from management on our internal control over financial reporting in our annual report on Form 20-F beginning with our annual report for the fiscal year ending December 31, 2008. In addition, our independent registered public

---

**Table of Contents**

accounting firm must report on the effectiveness of our internal control over financial reporting. Our management or our independent registered public accounting firm may conclude that our internal controls are not effective. Either of these possible outcomes could result in an adverse reaction in the financial marketplace due to a loss of investor confidence in the reliability of our reporting processes, which could materially and adversely affect the trading price of our ADSs.

In addition, our reporting obligations as a public company will place a significant strain on our management, operational and financial resources and systems for the foreseeable future. We may identify additional control deficiencies as a result of the assessment process we will undertake in compliance with Section 404, including but not limited to internal audit resources and formalized and documented closing and reporting processes. We plan to remediate any identified control deficiencies in time to meet the deadline imposed by the requirements of Section 404, but we may be unable to do so. Our failure to establish and maintain an effective system of internal control over financial reporting could result in the loss of investor confidence in the reliability of our financial reporting processes, which in turn could harm our business and negatively impact the trading price of our ADSs.

**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. For example, in February 2008, Xiamen Towona Culture Media Co., Ltd., or Xiamen Towona, filed a claim against Shanxi Mobile TV Co., Ltd., or Shanxi Mobile TV in the Taiyuan Intermediate People's Court and CDMTV was joined as a third party defendant. In the complaint, Xiamen Towona alleged that Shanxi Mobile TV terminated the exclusive agency agreement in Taiyuan with Xiamen Towona without justification. Xiamen Towona requested specific performance of the agreement and monetary damages in the amount of RMB8.0 million. In addition, in July 2008, Xiamen Towona and Guangzhou Towona Mobile Digital Advertisement Media Co., Ltd., or Guangzhou Towona, jointly filed a claim against Guangzhou Third Bus Company and CDMTV in the Yuexiu District People's Court in Guangzhou. In the complaint, Xiamen Towona and Guangzhou Towona alleged that Guangzhou Third Bus Company and CDMTV removed digital television displays installed by Xiamen Towona and Guangzhou Towona and replaced them with displays bearing our logo. Guangzhou Towona and Xiamen Towona requested equitable remedies from the court. See Business Legal and Administrative Proceedings. If the court rules in favor of Guangzhou Towona or Xiamen Towona, our operations in these cities may be jeopardized, which could have a material adverse effect on our business and results of operations.

The damages, costs, expenses and attorneys' fees arising from any of these claims could have an adverse effect on our business, results of operations, financial condition and prospects. In any case, our reputation may be negatively affected by these allegations.

---

**Table of Contents**

**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, is currently ineligible to apply for the required licenses to provide advertising services in China. Our advertising business is currently provided through our contractual arrangements with our consolidated affiliated entity in China, CDMTV. CDMTV is currently owned by Limin Li and Yanqing Liang and holds the requisite licenses to provide advertising services in China. CDMTV and its subsidiaries directly operate our advertising network, enter into direct investment and exclusive and non-exclusive advertising agency agreements, and sell advertising time to our clients. We have been and expect to continue to be dependent on CDMTV and its subsidiaries to operate our advertising business. We do not have any equity interest in CDMTV but receive the economic benefits and bear economic risks of it through various contractual arrangements. For more information regarding these contractual arrangements, see Our Corporate Structure.

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

If we, CDMTV or any of its current or future subsidiaries, our direct investment entities, or our local operating partners are found to be in violation of any existing or future PRC laws or regulations, or fail to obtain or maintain any of the required permits or approvals, the relevant PRC regulatory authorities, including the SAIC and SARFT, would have broad discretion in dealing with such violations, including:

revoking the business and operating licenses of such entities;

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

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

shutting down the network of CDMTV;

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

---

**Table of Contents**

restricting or prohibiting our use of the proceeds from this offering to finance our business and operations in China. The imposition of any of these penalties could result in a material and adverse effect on our ability to conduct our business and our financial condition and results of operations.

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

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

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

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

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

## **Table of Contents**

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

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

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

Under applicable PRC laws, rules and regulations, arrangements and transactions among related parties may be subject to audits or challenges by the PRC tax authorities. Neither we nor our PRC counsel are able to determine whether any of these transactions will be regarded by the PRC tax authorities as arm's length transactions because, based on our knowledge, the PRC tax authorities have not issued a ruling or interpretation in respect of the type of transaction structure similar to ours. The relevant tax authorities may determine that our contractual relationships with CDMTV and its shareholders were not entered into on an arm's length basis. If any of the transactions between CDTC, our wholly owned subsidiary in China, and CDMTV, our affiliated entity, and its shareholders, including our contractual relationships with CDMTV, are determined not to have been entered into on an arm's length basis, or are found to result in an impermissible reduction in taxes under PRC law, the PRC tax authorities may adjust the profits and losses of CDMTV and assess more taxes on it. In addition, the PRC tax authorities may impose late payment surcharges and other penalties to CDMTV for underpaid taxes. Our net income may be materially and adversely affected if CDMTV's tax liabilities increase or if it is found to be subject to late payment surcharges or other penalties.

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

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

In addition, the statutory general reserve fund requires annual appropriations of 10% of after-tax income to be set aside prior to payment of dividends until the cumulative fund reaches 50% of the registered capital. As a result of these PRC laws, rules and regulations, CDTC is restricted in its ability to transfer a portion of its net assets to us whether in the form of dividends, loans or advances. Any limitation on the ability of CDTC 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.

## **Table of Contents**

### **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. Since late 2003, the PRC government has implemented a number of measures, such as raising bank reserves against deposit rates to place additional limitations on the ability of commercial banks to make loans and raise interest rates, in order to decrease the growth rate of specific segments of China's economy which it believed to be overheating. These actions, as well as future actions and policies of the PRC government, could materially affect our liquidity and access to capital and our ability to operate our business. Substantially all of our assets are located in China and substantially all of our revenues are derived from our operations in China. Accordingly, our business, financial condition, results of operations and prospects are subject, to a significant extent, to economic, political and legal developments in China.

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

The PRC legal system is a civil law system based on written statutes. Unlike in common law systems, prior court decisions may be cited for reference but have limited precedential value. Since 1979, PRC legislation and regulations have significantly enhanced the protections afforded to various forms of foreign investments in China. We conduct all of our business through our subsidiary and consolidated 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



---

**Table of Contents**

uncertainties, which may limit legal protections available to us. For example, we may have to resort to administrative and court proceedings to enforce the legal protection that we enjoy either by law or contract. However, since PRC administrative and court authorities have significant discretion in interpreting and implementing statutory and contractual terms, it may be more difficult than in more developed legal systems to evaluate the outcome of administrative and court proceedings and the level of legal protection we enjoy. These uncertainties may impede our ability to enforce the contracts we have entered into with our business partners, customers and suppliers. In addition, such uncertainties, including the inability to enforce our contracts, could materially and adversely affect our business and operations. Furthermore, intellectual property rights and confidentiality protections in China may not be as effective as in the United States or other countries. Accordingly, we cannot predict the effect of future developments in the PRC legal system, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, or the preemption of local regulations by national laws. These uncertainties could limit the legal protections available to us and other foreign investors, including you. In addition, any litigation in China may be protracted and result in substantial costs and diversion of our resources and management attention.

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

We conduct substantially all of our operations in China and substantially all of our assets are located in China. In addition, all of our senior executive officers reside within China. As a result, it may not be possible to effect service of process within the United States or elsewhere outside China upon 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 subsidiary and consolidated affiliated entities, or we may make additional capital contributions to our PRC subsidiary. Any loans to our PRC subsidiary or consolidated affiliated entities in China are subject to PRC regulations and approvals. For example:

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

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

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

---

**Table of Contents**

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

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

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

**Our failure to obtain the approval of the China Securities Regulatory Commission, or CSRC, for the listing and trading of our ADSs on the Nasdaq Global Market, if required, could have a material adverse effect on our business, operating results, reputation and trading price of our ADSs, and may also create uncertainties for this offering.**

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

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

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

based on their understanding of the current PRC laws, rules and regulations and the new regulation, unless there are new PRC laws, rules and regulations or clear requirements from the CSRC in any

## **Table of Contents**

form that require the prior approval of the CSRC for the listing and trading of any SPV's securities on an overseas stock exchange, the new regulation does not require that we obtain prior CSRC approval for the listing and trading of our ADSs on the Nasdaq Global Market, because we completed our reorganization under which CDTC was established and assets and business were subsequently transferred from CDMTV to CDTC prior to September 8, 2006, the effective date of the new regulation.

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

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

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

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

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

The PRC government imposes controls on the convertibility of the Renminbi into foreign currencies and, in certain cases, the remittance of currency out of China. We receive all our revenues in Renminbi. Under our current corporate structure, our income is primarily derived from dividend payments from our PRC subsidiary. Shortages in the availability of foreign currency may restrict the ability of our PRC subsidiary to remit sufficient foreign currency to pay dividends or other payments to us, or otherwise satisfy their foreign currency-denominated obligations. Under existing PRC foreign exchange regulations, payments of current

---

**Table of Contents**

account items, including profit distributions, interest payments and expenditures from trade related transactions, can be made in foreign currencies without prior approval from SAFE by complying with certain procedural requirements. However, approval from SAFE or its local branch is required where Renminbi is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of loans denominated in foreign currencies. The PRC government may also, at its discretion, restrict access in the future to foreign currencies for current account transactions. If the foreign exchange control system prevents us from obtaining sufficient foreign currency to satisfy our currency demands, we may not be able to pay dividends in foreign currencies to our shareholders, including holders of our ADSs.

**Fluctuations in exchange rates 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. This appreciation has accelerated recently. 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 new PRC Enterprise Income Tax Law, or the EIT Law, was enacted on March 16, 2007 and 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.

**Table of Contents**

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 CDMTV were allowed to enjoy a preferential tax rate of 15%. In addition, CDMTV has been recognized as a culture enterprise and thus its headquarters are entitled to full exemption from enterprise income tax from 2005 to 2008. The PRC Ministry of Finance and State Administration of Taxation issued a circular Notice on preferential tax treatment of enterprise income tax in February 2008. The circular stipulates that a newly established culture enterprise could enjoy the corporate income tax exemption treatment which has been approved by the authorities until the end of its tax holiday. CDMTV has already obtained the tax exemption approval certificate for year 2008. CDMTV's sales branches located in various cities in the PRC are subject to enterprise income tax at standard rate. However, we cannot assure you that the current preferential tax treatments enjoyed by our PRC operating subsidiary and consolidated affiliated entities will continue. Any further legislative changes to the tax laws and or regulations could discontinue the preferential tax treatments enjoyed by them, and CDMTV may no longer be treated as a culture enterprise in future years by applicable authorities and become subject to increased income tax rate. The increase in the enterprise income tax rate applicable to our operating subsidiary and consolidated affiliated entities in the PRC resulted from either of the foregoing 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 PRC Enterprise Income Tax Law, or 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.

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

The EIT Law also provides that enterprises established outside of China whose de facto management bodies are located in China are considered resident enterprises and are generally subject to the uniform 25% enterprise income tax rate as to their worldwide income. Under the implementation regulations for the EIT Law issued by the PRC State Council, de facto management body is defined as a body that has material and overall management and control over the manufacturing and business operations, personnel and human resources, finances and treasury, and acquisition and disposition of properties and other assets of an enterprise. Although substantially all of our operational management is currently based in the PRC, it is unclear whether PRC tax authorities would require or permit us to be treated as a PRC resident enterprise. To our knowledge, there is a lack of clear guidance regarding the criteria pursuant to which the PRC tax authorities will determine the tax residency of a company under the EIT Law. As a result, neither we nor our PRC counsel can ascertain whether we will be subject to the tax applicable to resident enterprises or non-resident enterprises. If we are treated as a resident enterprise for PRC tax purposes, we will be subject to PRC tax on our worldwide income at the 25% uniform tax rate, which could have an impact on our effective tax rate and an adverse effect on our net income and results of operations, although dividends distributed from our PRC subsidiary to use could be exempt from Chinese dividend withholding tax, since such income is exempted under the EIT Law to a PRC resident recipient.

**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

---

**Table of Contents**

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

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

Our business could be materially and adversely affected by natural disasters, the outbreak of health epidemics, terrorist attacks or other events in China. For example, in early 2008, parts of China suffered a wave of strong snow storms that severely impacted public transportation systems. In May 2008, Sichuan Province in China suffered a strong earthquake measuring approximately 8.0 on the Richter scale that caused widespread damage and casualties. In particular, we lost a total of approximately 540 advertising hours, equal to approximately US\$2.6 million in lost revenue, in the weeks following the earthquake in Sichuan Province due to cancellation of all advertisements during a three-day national mourning period from May 19 through May 21, 2008, as well as broadcast and advertisement disruption during the weeks following the earthquake. The May 2008 Sichuan earthquake may have a material adverse effect on the general economic conditions in the areas affected by the earthquake. We cannot assure you that the May 2008 Sichuan earthquake will not have a significant impact on the overall economic conditions in the PRC. In addition, in the last decade, the PRC has suffered health epidemics related to the outbreak of avian influenza and severe acute respiratory syndrome. In July 2008, explosive devices were detonated on several buses in Kunming, Yunnan Province of China, which resulted in disruptions to public transportation systems in Kunming and casualties. Any future natural disasters, health epidemics, terrorist attacks or other events in the PRC could cause a reduction in usage of, or other severe disruptions to, public transportation systems and could have a material adverse effect on our business and results of operations.

**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.

**Table of Contents**

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

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

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

actual or anticipated fluctuations in our quarterly operating results;

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

announcements of competitive developments;

announcements regarding litigation or administrative proceedings involving us;

changes in financial estimates by securities research analysts;

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

addition or departure of our executive officers;

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

sales or perceived sales of additional common shares or ADSs.

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

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

Sales of our ADSs or common shares in the public market, or the perception that these sales could occur, could cause the market price of our ADSs to decline. As of July 30, 2008, we had 70,290,633 common shares outstanding, including 17,181,837 common shares represented by 17,181,837 ADSs. In connection with this offering, we and the selling shareholders have agreed, among other things, not to sell, transfer, pledge or otherwise dispose of any common shares or ADSs for 90 days after the date of this prospectus without the written consent of the representatives. However, the representatives may release these securities from these restrictions at any time. See *Underwriting* for a more detailed discussion of the restrictions on selling our securities after this offering. We cannot predict what effect, if any, market sales of securities held by our significant shareholders or any other shareholder, or the availability of these securities for future sale, will have on the market price of our ADSs.

In addition, certain of our shareholders or their transferees and assignees 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

## **Table of Contents**

change-of-control transactions. These provisions could have the effect of depriving our shareholders of an opportunity to sell their shares at a premium over prevailing market prices by discouraging third parties from seeking to obtain control of our company in a tender offer or similar transaction.

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

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

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

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

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

**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.

---

## **Table of Contents**

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

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

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

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

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

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

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

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

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

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

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

We may from time to time distribute rights to our shareholders, including rights to acquire our securities. However, we cannot make rights available to you in the United States unless we register the rights and the securities to which they relate under the Securities Act or an exemption from the registration requirements is available. Also, under the deposit agreement, the depositary will not make rights available to you unless either 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

**Table of Contents**

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 depositary of our ADSs has agreed to pay to you the cash dividends or other distributions it or the custodian receives on our common shares or other deposited securities after deducting its fees and expenses. You will receive these distributions in proportion to the number of common shares your ADSs represent. However, the depositary may, at its discretion, decide that it is impractical to make a distribution available to any holders of ADSs. For example, the depositary may determine that it is not 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 depositary may decide not to distribute such property and you will not receive such distribution.

**Table of Contents**

**FORWARD-LOOKING STATEMENTS**

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

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

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

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

**Table of Contents**

**USE OF PROCEEDS**

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

We intend to use the net proceeds we will receive from this offering for general corporate purposes, including potential acquisitions of complementary businesses, although we are not currently negotiating any such transactions.

The foregoing represents our current intentions to use and allocate the net proceeds of this offering based upon our present plans and business conditions. Our management, however, will have significant flexibility and discretion to apply the net proceeds of this offering. If an unforeseen event occurs or business conditions change, we may use the proceeds of this offering differently than as described in this prospectus.

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

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

**Table of Contents**

**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 discretion as to whether to distribute dividends. Even if our board of directors decides to pay dividends, the form, frequency and amount will depend upon our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that our board of directors may deem relevant.

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

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

**Table of Contents****MARKET PRICE OF OUR AMERICAN DEPOSITARY SHARES**

Our ADSs, each representing one common share, have been listed on the Nasdaq Global Market since December 6, 2007 under the symbol VISN. The table below sets forth the high and low sale prices for our ADSs on the Nasdaq Global Market for the periods indicated.

	Sale Price Per ADS High                      Low (US\$)	
<b>Monthly Highs and Lows:</b>		
2007		
December (from December 6 to December 31, 2007)	8.955	8.000
2008		
January	9.600	6.180
February	10.600	6.880
March	12.000	8.850
April	15.850	11.660
May	22.530	15.850
June	18.840	15.630
July	25.040	14.170

As of July 30, 2008, a total of 17,181,837 ADSs were outstanding. Approximately 26.4% of our outstanding common shares are held by one holder of record in the United States. On July 31, 2008, the last sale price for our ADS as reported on the Nasdaq Global Market was US\$25.04 per ADS.

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

The following table sets forth our capitalization as of June 30, 2008:

on an actual basis

on an as adjusted basis to give effect to the issuance and sale of 1,000,000 common shares in the form of ADSs by us in this offering, at the assumed public offering price of US\$ per ADS, after deducting underwriting discounts, commissions and estimated offering expenses payable by us and assuming no exercise of the underwriters' over-allotment option.

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

	<b>As of June 30, 2008</b>	
	<b>Actual</b>	<b>As Adjusted</b>
	<b>(US\$)</b>	
Shareholders' equity:		
Common shares, US\$0.0001 par value, 200,000,000 shares authorized, 69,198,482 shares issued and outstanding <sup>(1)</sup>	6,920	
Additional paid-in capital	167,604,519	
Accumulated profit	10,615,387	
Accumulated other comprehensive income	10,022,591	
Total shareholders' equity and capitalization	188,249,417	

- (1) Excludes 4,775,216 common shares issuable upon the exercise of options to purchase our common shares outstanding as of June 30, 2008, which were granted under our 2006 share incentive plan.

**Table of Contents****EXCHANGE RATE INFORMATION**

A number of RMB-denominated figures used in this prospectus are accompanied by 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. We make no representation that any RMB or U.S. dollar amounts could have been, or could be, converted into U.S. dollars or RMB, as the case may be, at any particular rate, the rates stated below, or at all. The PRC government imposes control over its foreign currency reserves in part through direct regulation of the conversion of RMB into foreign currencies and through restrictions on foreign trade.

The following table sets forth information concerning exchange rates between the RMB and the U.S. dollar for the periods indicated. These rates are provided solely for your convenience and are not necessarily the exchange rates that we used in this prospectus or will use in the preparation of our periodic reports or any other information to be provided to you. The source of these rates is the Federal Reserve Bank of New York. The noon buying rate in the City of New York for cable transfers in Renminbi per U.S. dollar as certified for customs purposes by the Federal Reserve Bank of New York was 6.8388 as of July 31, 2008.

Period	Period End	Noon Buying Rate		
		Average <sup>(1)</sup> (RMB per US\$1.00)	Low	High
2003	8.2767	8.2771	8.2800	8.2765
2004	8.2765	8.2768	8.2774	8.2764
2005	8.0702	8.1826	8.2765	8.0702
2006	7.8041	7.9579	8.0702	7.8041
2007	7.2946	7.5806	7.8127	7.2946
2008				
January	7.1818	7.2405	7.2946	7.1818
February	7.1115	7.1644	7.1973	7.1100
March	7.0120	7.0722	7.1110	7.0105
April	6.9870	6.9997	7.0185	6.9840
May	6.9400	6.9725	7.0000	6.9377
June	6.8591	6.8993	6.9633	6.8591
July	6.8388	6.8355	6.8632	6.8104

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

**Table of Contents**

**ENFORCEABILITY OF CIVIL LIABILITIES**

We were incorporated in the Cayman Islands in order to enjoy some advantages associated with being a Cayman Islands exempted company, such as:

political and economic stability;

an effective judicial system;

a favorable tax system;

the absence of exchange control or currency restrictions; and

the availability of professional and support services.

However, certain disadvantages accompany incorporation in the Cayman Islands. These disadvantages include:

the Cayman Islands has a less developed body of securities laws as compared to the United States and these securities laws provide significantly less protection to investors; and

Cayman Islands companies may not have standing to sue before the federal courts of the United States.

Our constituent documents do not contain provisions requiring that disputes, including those arising under the securities laws of the United States, between us, our officers, directors and shareholders, be subject to arbitration.

All of our operations are conducted in China, and substantially all of our assets are located in China. A majority of our officers are nationals or residents of jurisdictions other than the United States and all or a substantial portion of their assets are located outside the United States. As a result, it may be difficult for a shareholder to effect service of process within the United States upon these persons, or to enforce against us or them judgments obtained in United States courts, including judgments predicated upon the civil liability provisions of the securities laws of the United States or any state in the United States.

We have appointed CT Corporation System, 111 Eighth Avenue, New York, NY 10011, as our agent upon whom process may be served in any action brought against us under the securities laws of the United States.

Maples and Calder, our counsel as to Cayman Islands law, and Grandall Legal Group, our counsel as to PRC law, have advised us, respectively, that there is uncertainty as to whether the courts of the Cayman Islands and China, respectively, would:

recognize or enforce judgments of United States courts obtained against us or our directors or officers predicated upon the civil liability provisions of the securities laws of the United States or any state in the United States; or

entertain original actions brought in each respective jurisdiction against us or our directors or officers predicated upon the securities laws of the United States or any state in the United States.

## Edgar Filing: VISIONCHINA MEDIA INC. - Form F-1

Maples and Calder has further advised us that a final and conclusive judgment in the federal or state courts of the United States under which a sum of money is payable, other than a sum payable in respect of taxes, fines, penalties or similar charges, may be subject to enforcement proceedings as a debt in the courts of the Cayman Islands under the common law doctrine of obligation.

Grandall Legal Group has further advised us that the recognition and enforcement of foreign judgments are provided for under PRC Civil Procedures Law. PRC courts may recognize and enforce foreign judgments in accordance with the requirements of PRC Civil Procedures Law based either on treaties between China and the country where the judgment is made or on reciprocity between jurisdictions; provided that the foreign judgments do not violate the basic principles of the laws of the PRC or its sovereignty, security, or social and public interest.

**Table of Contents**

**OUR CORPORATE STRUCTURE**

**Our History**

We commenced operations through CDMTV, a limited liability company established in China on April 8, 2005. CDMTV 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. CDMTV and its subsidiaries hold the licenses and permits necessary to operate our businesses and provide our advertising services in China.

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

Due to PRC regulatory restrictions on foreign investments in the advertising and mobile digital television industries, we operate our advertising business in China through CDMTV. Our relationships with CDMTV and its shareholders are governed by a series of contractual arrangements that allow us to effectively control and derive economic benefits from CDMTV. Accordingly, we treat CDMTV as a variable interest entity and have consolidated its historical financial results in our financial statements in accordance with U.S. GAAP.

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

**Our Corporate Structure**

The following diagram illustrates our company's organizational structure, and the place of formation and ownership interest of our principal subsidiaries as of the date of this prospectus.

**Table of Contents**

---

**Table of Contents****Contractual Arrangements**

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 subsidiary, CDTC, is ineligible to apply for the required licenses for providing advertising services in China. Our advertising business is operated through our contractual arrangements with CDMTV. CDTC and CDMTV 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 CDMTV 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. These contractual arrangements enable us to exercise effective control over CDMTV and its subsidiaries and receive substantially all of the economic benefits of CDMTV and its subsidiaries 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 CDMTV and its shareholders to renew or enter into new contractual arrangements prior to the expiration of the current arrangements on terms that would enable us to continue to operate our business in China after the expiration of the current arrangements.

**Agreements That Transfer Economic Benefit to Us**

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

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

**Agreements That Provide Us Effective Control Over CDMTV and Its 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 and which facilitates the establishment of our current corporate structure. CDTC made an interest-free loan of RMB50 million to the shareholders of CDMTV. The loan can be repaid only with the proceeds from the transfer of the shareholder's equity interest in CDMTV to CDTC or another person designated by CDTC pursuant to the Option Agreement as discussed below. In the event of a default under this agreement, the non-defaulting party can terminate this agreement.

***Proxy Letter.*** Limin Li and Yanqing Liang signed certain proxy letters on February 15, 2007, pursuant to which Limin Li and Yanqing Liang have granted an employee of CDTC, who is a PRC citizen, the right to exercise all their voting rights as shareholders of CDMTV 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

**Table of Contents**

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 CDMTV owned by Limin Li and Yanqing Liang. The purchase price for the entire equity interest shall be the greater of (i) RMB50 million and (ii) the minimum price permitted by applicable PRC law and agreed upon by the parties. The option agreement remains in effect until the completion of the transfer of all the shares in accordance with the option agreement. In the event of a default under this agreement, the non-defaulting party can terminate this agreement.

***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 CDMTV to CDTC to secure their obligations under the loan agreement and CDMTV's obligations under the technology and management service agreement and domain name license agreement, each as described above. In addition, shareholders of CDMTV agree not to transfer, sell, pledge, dispose of or create any encumbrance on any equity interests in CDMTV 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.

In the opinion of Grandall Legal Group, our PRC legal counsel:

the ownership structure of CDMTV and its subsidiaries and our other PRC affiliates, complies with, and immediately after this offering, will comply with, current PRC laws, rules and regulations;

our contractual arrangements with CDMTV and its shareholders are valid and binding on all parties to these arrangements, and do not violate current PRC laws, rules or regulations; and

the business operations of CDTC, CDMTV and its subsidiaries comply with current PRC laws, rules and regulations.

Our PRC legal counsel has further advised us that there are substantial uncertainties regarding the interpretation and application of current and future PRC laws and regulations. Accordingly, the PRC regulatory authorities may take a view that is contrary to the above opinion of our PRC legal counsel in the future. 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 network businesses do not comply with applicable restrictions on foreign investment in the advertising industry or the mobile digital televisions industry, we could be subject to severe penalties including being prohibited from continuing operation. See Risk Factors Risks Related to Our Corporate Structure.

**Table of Contents****SELECTED CONDENSED CONSOLIDATED FINANCIAL DATA**

The following selected condensed consolidated statement of operations data for the period from April 8, 2005 (date of inception) to December 31, 2005 and for the years ended December 31, 2006 and 2007 and the condensed consolidated balance sheet data as of December 31, 2006 and 2007 have been derived from our audited consolidated financial statements, which are included elsewhere in this prospectus. The following selected condensed consolidated balance sheet data as of December 31, 2005 have been derived from our audited consolidated financial statements, which are not included elsewhere in this prospectus. You should read the selected condensed consolidated financial data in conjunction with those financial statements and the related notes and the Management's Discussion and Analysis of Financial Condition and Results of Operations section of this prospectus. 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.

	<b>For the Period from April 8, 2005 (date of inception) to December 31, 2005</b>	<b>For the Year Ended December 31,</b>	
		<b>2006</b>	<b>2007</b>
	(US\$, except number of shares)		
<b>Condensed Consolidated Statement of Operations Data:</b>			
Revenues			
Advertising service revenues		2,033,284	27,489,391
Advertising equipment revenues	290,521	1,839,598	1,896,200
<b>Total revenues</b>	<b>290,521</b>	<b>3,872,882</b>	<b>29,385,591</b>
Cost of revenues			
Advertising service cost		3,967,081	12,801,957
Advertising equipment cost	261,504	1,639,895	1,583,325
<b>Total cost of revenues</b>	<b>261,504</b>	<b>5,606,976</b>	<b>14,385,282</b>
Gross profit (loss)	29,017	(1,734,094)	15,000,309
Operating expenses			
Government grant		125,953	
Loss from equity method investees	(104,475)	(469,841)	(1,262,273)
Operating profit (loss)	(461,673)	(4,145,273)	8,639,460
Interest income	45,264	98,873	505,888
Other expenses		(22,608)	(95,719)
<b>Net income (loss) before income taxes</b>	<b>(416,409)</b>	<b>(4,069,008)</b>	<b>9,049,629</b>
Income taxes			332,386
Minority interest			11,343
<b>Net income (loss)</b>	<b>(416,409)</b>	<b>(4,069,008)</b>	<b>9,393,358</b>
Deemed dividend on convertible redeemable preferred shares		1,583,333	6,625,262
<b>Net income (loss) attributable to holders of common shares</b>	<b>(416,409)</b>	<b>(5,652,341)</b>	<b>2,768,096</b>
Net income (loss) per common share:			
Basic	(0.02)	(0.26)	0.11
Diluted	(0.02)	(0.26)	0.11
Shares used in computation of net income (loss) per share:			

Edgar Filing: VISIONCHINA MEDIA INC. - Form F-1

Basic	22,000,000	22,000,000	24,709,522
Diluted	22,000,000	22,000,000	25,771,702
Share-based compensation expenses during the related periods included in:			
Cost of revenues		37,576	34,431
Selling and marketing expenses		5,374	135,722
General and administrative expenses		35,802	51,209

**Table of Contents**

	2005	As of December 31, 2006 (US\$)	2007
<b>Condensed Consolidated Balance Sheet Data:</b>			
Cash and cash equivalents	2,599,078	5,215,693	131,139,659
Total assets	6,040,923	17,043,776	175,300,276
Total current liabilities	247,117	1,241,783	10,618,779
Total shareholders' equity	5,793,806	581,666	164,028,819

**Table of Contents****RECENT DEVELOPMENTS****Results of Operations for the Six Months Ended June 30, 2008**

The following selected consolidated financial data for the six months ended June 30, 2007 and June 30, 2008 and as of June 30, 2008 have been derived from our unaudited interim consolidated financial information for these periods. The following selected consolidated balance sheet data as of December 31, 2007 have been derived from our audited consolidated financial statements, which are included elsewhere in this prospectus. Our unaudited interim consolidated financial information for the six months ended June 30, 2007 and June 30, 2008 and as of June 30, 2008 are prepared in accordance with U.S. GAAP and reflect all adjustments, consisting only of normal and recurring adjustments, that are necessary for a fair presentation of our financial position and results of operations in the interim periods presented. Results for the six months ended June 30, 2008 are not necessarily indicative of the results for the full year of 2008 or any interim period subsequent to June 30, 2008.

	<b>For Six Months Ended June 30,</b>	
	<b>2007</b>	<b>2008</b>
	<b>(US\$, except number of shares)</b>	
<b>Consolidated Statement of Operations Data:</b>		
Revenues		
Advertising service revenues	7,095,169	33,394,211
Advertising equipment revenues	967,196	527,360
<b>Total revenues</b>	<b>8,062,365</b>	<b>33,921,571</b>
Cost of revenues		
Advertising service cost	(5,325,697)	(14,306,233)
Advertising equipment cost	(792,688)	(441,510)
<b>Total costs of revenues</b>	<b>(6,118,385)</b>	<b>(14,747,743)</b>
Gross profit	1,943,980	19,173,828
Operating expenses		
Selling and marketing	(497,414)	(4,607,304)
General and administrative	(1,071,490)	(1,807,560)
<b>Total operating expenses</b>	<b>(1,568,904)</b>	<b>(6,414,864)</b>
Loss from equity method investees	(490,049)	(442,472)
Operating profit (loss)	(114,973)	12,316,492
Interest income	58,450	1,651,016
Other expenses	(36,391)	(18,982)
<b>Net income (loss) before income taxes</b>	<b>(92,914)</b>	<b>13,948,526</b>
Income tax expense		(73,152)
<b>Net income (loss) after income taxes</b>	<b>(92,914)</b>	<b>13,875,374</b>
Minority interest		40,668
<b>Net income (loss)</b>	<b>(92,914)</b>	<b>13,916,042</b>
Deemed dividend on convertible redeemable preferred shares	(2,079,220)	

Edgar Filing: VISIONCHINA MEDIA INC. - Form F-1

Net income (loss) attributable to holders of common shares	(2,172,134)	13,916,042
Net income (loss) per common share:		
Basic	(0.10)	0.20
Diluted	(0.10)	0.19
Shares used in computation of net income (loss) per share:		
Basic	22,000,000	68,637,810
Diluted	22,000,000	71,618,437
Share-based compensation expenses during the related periods included in:		
Cost of revenues	14,682	20,643
Selling and marketing expenses	43,769	483,146
General and administrative expenses	17,989	54,799

**Table of Contents**

	December 31, 2007	As of June 30, 2008 (US\$)
<b>Consolidated Balance Sheet Data:</b>		
<b>ASSETS</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	131,139,659	124,168,704
Accounts receivable, net	13,256,450	19,832,753
Amounts due from related parties	3,632,864	4,213,491
Prepaid expense and other current assets	9,683,059	14,763,519
Deferred tax assets, net	332,386	279,285
<b>Total current assets</b>	<b>158,044,418</b>	<b>163,257,752</b>
<b>Non-current Assets:</b>		
Fixed assets, net	7,709,204	9,771,198
Investments under equity method	6,714,853	6,684,371
Other investments	2,128,732	2,263,890
Long-term prepaid expenses	703,069	705,485
Long-term payments and deposits		16,537,272
Intangible assets		10,568,461
<b>Total non-current assets</b>	<b>17,255,858</b>	<b>46,530,677</b>
<b>TOTAL ASSETS</b>	<b>175,300,276</b>	<b>209,788,429</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
<b>Current Liabilities:</b>		
Accounts payable	4,236,695	3,771,974
Amounts due to related parties	327,532	410,242
Accrued expenses and other current liabilities	6,054,552	5,848,321
<b>Total current liabilities</b>	<b>10,618,779</b>	<b>10,030,537</b>
<b>Non-current liabilities:</b>		
Contingent consideration		8,677,700
Deferred tax liabilities		2,218,766
<b>Total non-current liabilities</b>		<b>10,896,466</b>
<b>TOTAL LIABILITIES</b>	<b>10,618,779</b>	<b>20,927,003</b>
Minority interest	652,678	612,009
<b>Shareholders equity</b>		
Common shares	6,839	6,920
Additional paid-in capital	163,820,443	167,604,519
Accumulated profit/(deficit)	(3,300,654)	10,615,387
Accumulated other comprehensive income	3,502,191	10,022,591
<b>Total shareholders equity</b>	<b>164,028,819</b>	<b>188,249,417</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS EQUITY</b>	<b>175,300,276</b>	<b>209,788,429</b>

**Table of Contents**

	December 31, 2007	As of June 30, 2008 (US\$)
<b>Selected Operating Data:</b>		
Number of digital television displays in our mobile digital television advertising network	41,202	57,252
Number of digital displays in our stationary advertising platform	208	2,908
 Total number of digital displays	 41,410	 60,160
		<b>Six Months Ended June 30, 2007    2008</b>
Total hours of broadcasting <sup>(1)</sup>		31,748    55,502
Average revenue per hour <sup>(1)(2)</sup> (US\$)		211    583
Average advertising minutes sold per hour		4.88    7.25

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

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

**Six Months Ended June 30, 2008 Compared to Six Months Ended June 30, 2007**

**Total Revenues.** Our total revenues increased significantly to US\$33.9 million for the six months ended June 30, 2008 from US\$8.1 million for the six months ended June 30, 2007.

Our advertising service revenues increased significantly to US\$33.4 million for the six months ended June 30, 2008 from US\$7.1 million for the six months ended June 30, 2007. We experienced a significant increase in advertising service revenues as a result of increased sales of advertising time on our mobile digital television advertising network and our stationary advertising platform. We attribute the increase in our advertising service revenues to our enhanced sales and marketing efforts and the growth of our mobile digital television advertising network and stationary advertising platform that in the aggregate covered 16 cities as of June 30, 2008. In addition, we raised our rate cards for our network and stationary advertising platform on November 1, 2007 and May 1, 2008.

Our advertising equipment revenues decreased to US\$0.5 million for the six months ended June 30, 2008 from US\$1.0 million for the six months ended June 30, 2007. We attribute this decrease to the fact that our direct investment entities purchased more digital television displays from us in the first half of 2007 during the initial expansion of their local networks.

**Cost of Revenues.** Our cost of revenues increased significantly to US\$14.7 million for the six months ended June 30, 2008 from US\$6.1 million for the six months ended June 30, 2007.

Our advertising service cost increased significantly to US\$14.3 million for the six months ended June 30, 2008 from US\$5.3 million for the six months ended June 30, 2007 due to the following reasons:

Our media cost increased significantly to US\$10.9 million for the six months ended June 30, 2008 from US\$4.9 million for the six months ended June 30, 2007. We experienced a significant increase in media cost primarily due to a large increase in the amount of network rental fees paid to our exclusive agency partner companies to secure advertising time. The number of cities operating under our exclusive agency model increased to 12 cities as of June 30, 2008 from four

## Edgar Filing: VISIONCHINA MEDIA INC. - Form F-1

cities as of June 30, 2007. We also attribute the increase in our media cost to payments to the subway companies for our stationary advertising platform beginning in May and June 2007 to purchase advertising time on the stationary advertising platform in subway stations in Guangzhou and Shenzhen, respectively.

---

**Table of Contents**

Our business tax increased significantly to US\$1.9 million for the six months ended June 30, 2008 from US\$0.3 million for the six months ended June 30, 2007 as a result of the significant increase in our revenues.

Our other costs include salaries and expenses related to installation and maintenance of the displays in our network and increased significantly to US\$1.0 million for the six months ended June 30, 2008 from US\$0.1 million for the six months ended June 30, 2007, primarily due to the expansion of our network into new cities and also in the cities where we already operated.

Our depreciation increased to US\$0.5 million for the six months ended June 30, 2008 from US\$0.03 million for the six months ended June 30, 2007 as a result of the significant increase in the number of digital television displays located in our exclusive agency cities directly owned by us.

Our advertising equipment cost decreased to US\$0.4 million for the six months ended June 30, 2008 from US\$0.8 million for the six months ended June 30, 2007 because we purchased a smaller quantity of digital television displays and other related components in 2008.

**Gross Profit.** As a result of the foregoing, our gross profit increased to US\$19.2 million for the six months ended June 30, 2008 from US\$1.9 million for the six months ended June 30, 2007. Our gross margin increased to 56.5% for the six months ended June 30, 2008 from 24.1% for the six months ended June 30, 2007. Our gross margin increased primarily due to the fact that the increase in our advertising service revenues outpaced the increase in our cost of revenues because more of our cities operated under the exclusive agency model that sets the media cost according to a predetermined annual network rental fee. In addition, our advertising service revenues accounted for a larger percentage of our total revenues for the six months ended June 30, 2008 compared to the same period in 2007, and we generally achieve a higher gross margin for our advertising service revenues compared to our advertising equipment revenues.

**Operating Expenses.** Our operating expenses increased significantly to US\$6.4 million for the six months ended June 30, 2008 from US\$1.6 million for the six months ended June 30, 2007.

**Selling and Marketing.** Selling and marketing expenses increased significantly to US\$4.6 million for the six months ended June 30, 2008 from US\$0.5 million for the six months ended June 30, 2007. Our selling and marketing expenses increased mainly due to a significant expansion of our sales force along with increases in marketing and promotional expenses incurred by our sales force. In particular, our share-based compensation expenses accounted for under selling and marketing expenses increased to US\$0.5 million for the six months ended June 30, 2008 from US\$0.04 million for the six months ended June 30, 2007 in relation to options and restricted shares we granted to incentivize our sales and marketing employees. The number of our selling and marketing employees increased to 276 as of June 30, 2008 from 80 as of June 30, 2007.

**General and Administrative.** General and administrative expenses increased to US\$1.8 million for the six months ended June 30, 2008 from US\$1.1 million for the six months ended June 30, 2007. Our general and administrative expenses increased mainly due to the increase in the size of our administrative staff to support our growing operations and the increased expenditures associated with being a publicly listed company. Our share-based compensation expenses accounted for under general and marketing expenses increased to US\$0.05 million for the six months ended June 30, 2008 from US\$0.02 million for the six months ended June 30, 2007 in relation to options we granted to incentivize our employees.

**Loss from Equity Method Investees.** Our loss from equity method investees amounted to US\$0.4 million for the six months ended June 30, 2008 and US\$0.5 million for the six months ended June 30, 2007.

**Table of Contents**

**Operating Profit (Loss).** As a result of the foregoing, our operating profit amounted to US\$12.3 million for the six months ended June 30, 2008, compared to an operating loss of US\$0.1 million for the six months ended June 30, 2007.

**Interest Income.** Our interest income increased to US\$1.7 million for the six months ended June 30, 2008 from US\$0.06 million for the six months ended June 30, 2007, primarily as a result of higher cash and cash equivalent balances provided by the proceeds of our initial public offering received in December 2007 and cash generated from operations.

**Income Taxes.** We incurred income taxes of US\$0.07 million for the six months ended June 30, 2008 and nil for the six months ended June 30, 2007. We expect our income tax expenses to increase significantly in future periods as our tax holiday as a result of being a culture enterprise expires at the end of 2008.

**Net Income (Loss).** As a result of the foregoing, our net income amounted to US\$13.9 million for the six months ended June 30, 2008, compared to a net loss of US\$0.1 million for the six months ended June 30, 2007.

**Recent Business Developments**

Since December 31, 2007, we have expanded and strengthened our mobile digital television advertising network with additional exclusive agency arrangements. In particular, our exclusive agency arrangements with our direct investment entities located in Changchun, Chengdu, Dalian, Ningbo and Wuhan became effective in 2008. We have also expanded our mobile digital television network pursuant to exclusive agency arrangements in Shenyang and Taiyuan. On May 1, 2008, we also expanded our stationary advertising platform in Guangzhou by acquiring the exclusive right to place advertisements on the digital displays located in subway trains as well as digital displays located on subway platforms. Our exclusive agency arrangement with respect to the digital displays on the subway platforms and in the subway trains in Guangzhou does not include sales of advertising time to advertisers from Guangzhou.

We entered into an exclusive contract effective July 1, 2008 and ending on December 31, 2008 with Shanghai Shentong Metro Asset Operation and Management Corporation, the asset management arm of Shanghai Metro, to act as the exclusive advertising agent for two of Shanghai's subway lines.

As a result of these new exclusive agency arrangements, we incurred additional contractual obligations to make minimum payments to the mobile digital television companies over the terms of these contracts. The following table sets forth our total contractual obligations and commercial commitments as of June 30, 2008:

	Total	Less than 1 year	1-3 years (US\$)	3-5 years	More than 5 years
Long-term purchase agreement	169,075,599	25,899,022	54,869,863	36,790,992	51,515,722
Operating lease obligations	1,326,002	517,340	335,755	215,472	257,435
Total contractual obligations	170,401,601	26,416,362	55,205,618	37,006,464	51,773,158

Effective from May 1, 2008, we increased the rate card for all advertising time across our mobile digital television advertising network and stationary advertising platform. In addition, effective from July 1, 2008, we increased the rate card for all advertising time on the displays in the subway platforms in Shenzhen as well as on the five large digital displays in the subway stations in Guangzhou.

**Recent Acquisitions**

We purchased all of the outstanding equity interests of Peak Win Limited, Century Port Limited, Golden Carriage International Limited, Goldwhite Limited and Aim Sky International Limited pursuant to share

**Table of Contents**

subscription agreements entered into in April and May 2008 in connection with our acquisition of certain advertising agency businesses in China. These acquisitions broadened our advertising client base and expanded our team with talented industry professionals. Under these share subscription agreements, we have typically agreed to pay a deposit up front. In each of the subsequent three years, we may be obligated to pay an additional amount or be entitled to receive refund of a portion of the deposit, depending on the operating results of the acquired business.

We paid a total of US\$14.4 million in deposits in connection with the acquisitions of these advertising agencies. The final purchase price is based on the operating results of each acquired business over the next three years under the share subscription agreements. Based on the preliminary purchase price allocation, we recorded intangible assets of US\$10.9 million and deferred tax liabilities of US\$2.2 million. After amortization of intangible assets, the carrying value of intangible assets as of June 30, 2008 was US\$10.6 million. Since the final purchase price cannot be determined as of June 30, 2008, we also recorded a contingent consideration of US\$8.7 million.

---

**Table of Contents**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*You should read the following discussion and analysis of our financial condition and results of operations in conjunction with the sections entitled Selected Condensed Consolidated Financial Data and Recent Developments and our audited consolidated financial statements and the related notes included elsewhere in this prospectus. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results and the timing of selected events could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under Risk Factors and elsewhere in this prospectus.*

**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 June 30, 2008, our mobile digital television advertising network consists primarily of our digital television displays installed on buses in 16 cities in China. As a supplement to our mobile digital television advertising network, we operate our stationary advertising platform that consists primarily of digital displays in subway stations in Guangzhou, Shanghai (since July 1, 2008) and Shenzhen. Our mobile digital television advertising network and stationary advertising platform, as of June 30, 2008, included over 60,160 digital displays principally located on mass transportation systems throughout China. We derive revenues by selling advertising time on our network and from sales of advertising equipment to our direct investment entities.

We have experienced significant revenues growth, and the size of our network has grown significantly since the commercial launch of our advertising network in 2005. We have expanded our operations through three different types of arrangements that consist of our exclusive agency model, our direct investment model and our outreach agency model.

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

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

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

our ability to expand our network and stationary 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;

## Edgar Filing: VISIONCHINA MEDIA INC. - Form F-1

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.

As an important source of revenues is our advertising service revenues, we focus on factors that directly affect our advertising service revenues such as (i) the total advertising time that we have available across all of our cities, (ii) the actual price we charge for our advertising time and (iii) the programming to advertising

---

## **Table of Contents**

ratio. The actual price we charge advertising clients, which equals the official list price minus any discounts, for time on our network is affected by, among other things, (i) the overall socioeconomic conditions in each city, (ii) the level of demand for advertising time in each city, and (iii) the perceived effectiveness of our network in achieving the goals of our advertising clients. The effectiveness of our network directly relates to our ability to expand the coverage of our mobile digital television advertising network and our ability to provide programs that draw the attention of viewers. We also measure our performance using an average revenues per hour metric, which we calculate by dividing the advertising service revenues by the total hours of broadcasting in the cities of our network and stationary 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 formed a special team of ten employees and four outside advisors as of December 31, 2007 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.

### **Our Corporate Structure**

We commenced operations through CDMTV, a limited liability company established in China on April 8, 2005. CDMTV 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. CDMTV and its subsidiaries hold the licenses and permits necessary to operate our businesses and provide our advertising services in China.

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

Due to PRC regulatory restrictions on foreign investments in the advertising and mobile digital television industries, we operate our advertising business in China through CDMTV. Our relationships with CDMTV and its shareholders are governed by a series of contractual arrangements that allow us to effectively control and derive economic benefits from CDMTV. Accordingly, we treat CDMTV as a variable interest entity and have consolidated its historical financial results in our financial statements in accordance with U.S. GAAP.

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

### **Revenues**

We had total revenues of US\$0.3 million, US\$3.9 million and US\$29.4 million for the period from April 8, 2005 (date of inception) to December 31, 2005, for the year ended December 31, 2006 and for the year ended December 31, 2007, respectively. We generate revenues from the sales of advertising time on our mobile digital television advertising network and, starting in 2007, on our stationary advertising platform. We principally derive our advertising service revenues from sales of advertising time between the programs, but

**Table of Contents**

starting in July 2007, we derive some revenues from soft advertising embedded into the programs on our network. We also generate revenues from sales of our digital television displays to our direct investment entities, which we refer to as our advertising equipment revenues. The following table sets forth a breakdown of our total revenues for the periods indicated.

	For the Period from April 8 to December 31, 2005		For the Year Ended December 31,			
	US\$	% of total revenues	2006		2007	
			US\$	% of total revenues	US\$	% of total revenues
Revenues:						
Advertising service revenues		0.0	2,033,284	52.5	27,489,391	93.5
Advertising equipment revenues	290,521	100.0	1,839,598	47.5	1,896,200	6.5
Total	290,521	100.0	3,872,882	100.0	29,385,591	100

**Advertising Service Revenues**

We derive the majority of our advertising service revenues from the sales of advertising time between the programs on our mobile digital television advertising network. Starting in 2007, we also generated some of our advertising service revenues from sales of advertising time on our stationary advertising platform, which accounted for 10.7% of our advertising service revenues in 2007. In addition, beginning in July 2007, we began to derive advertising service revenues from sales of soft advertising embedded in the programs on our network, such as advertising in the form of infomercials or product placement. Our advertising service revenues accounted for nil, 52.5% and 93.5% of our total revenues for the period from April 8, 2005 (date of inception) to December 31, 2005, for the year ended December 31, 2006 and for the year ended December 31, 2007, respectively.

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

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

**Factors that Affect Our Advertising Service Revenues**

**Advertising Time.** The total advertising time available across all of our cities determines our total capacity and affects our advertising service revenues. Any future expansion of our network or non-broadcast advertising platform into new cities will increase the total advertising time available across all of our cities and affect our advertising service revenues. Geographic expansion of our network or stationary 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 stationary 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

---

## **Table of Contents**

with prospective partners to develop relationships, secure contractual agreements and assist in the deployment and maintenance of our network.

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

***Demand for advertising time on our network and stationary 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 2008 Summer Olympics in Beijing or 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.

***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 stationary 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 stationary advertising platform affects our advertising service revenues. Broadcasting an optimal mix of advertising and programs will maximize our total revenues.

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

### ***Advertising Equipment Revenues***

We derive a portion of our total revenues from the sales of digital television displays and related equipment to our direct investment entities. We record these revenues as advertising equipment revenues. We source digital television displays and related equipment from third-party suppliers and sell them to our direct investment entities in order to ensure consistent quality of the equipment used in our network and achieve cost efficiency for our direct investment entities. Our advertising equipment revenues represented 100.0%, 47.5% and 6.5% of our total revenues for the period from April 8, 2005 (date of inception) to December 31, 2005, for the year ended December 31, 2006 and for the year ended December 31, 2007, respectively. We generally set the price of our advertising equipment at the unit procurement cost plus an additional markup. Since sales of



**Table of Contents**

equipment in China require the payment of the value added tax, or VAT, equal to 17%, we record our advertising equipment revenues excluding the VAT payments. We expect that advertising equipment revenues in future periods will decrease as a percentage of our total revenues because we expect our advertising service revenues to grow faster than our advertising equipment revenues.

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

**Factors that Affect Our Advertising Equipment Revenues**

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

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

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

**Cost of Revenues**

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

	For the Period from April 8 to December 31, 2005		For the Year Ended December 31,			
	US\$	% of total revenues	2006		2007	
			US\$	% of total revenues	US\$	% of total revenues
Total Revenues	290,521	100.0	3,872,882	100.0	29,385,591	100.0
Cost of revenues:						
Advertising service cost		0.0	3,967,081	102.4	12,801,957	43.6
Advertising equipment cost	261,504	90.0	1,639,895	42.3	1,583,325	5.4
Total cost of revenues	261,504	90.0	5,606,976	144.7	14,385,282	49.0
Gross profit (loss)	29,017	10.0	(1,734,094)	(44.7)	15,000,309	51.0

**Advertising Service Cost**

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



---

**Table of Contents**

**Media Costs.** Our media costs represented the largest component of our cost of revenues and accounted for approximately nil, 98.4% and 37.2% of our total revenues for the period from April 8, 2005 (date of inception) to December 31, 2005, for the year ended December 31, 2006 and for the year ended December 31, 2007, respectively. Our media costs primarily consist of:

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

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

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

beginning in 2007, payments to subway companies for our stationary advertising platform pursuant to our agreements to control all of the advertising time on the digital displays located in subway stations.

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 predetermined annual network rental fee in exchange for the exclusive right to place advertisements on all of the time available for advertisements on that network. We expect the number of our exclusive agency cities to increase in future periods as we enter into exclusive agency arrangements with our direct investment entities and with additional mobile digital television companies in new cities. As a result, we expect our network rental fees to increase in future periods, but we expect media costs to decrease as a percentage of our total revenues because we expect our advertising revenues to grow faster than our media costs.

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 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 nil, 0.3% and 0.7% of our total revenues for the period from April 8, 2005 (date of inception) to December 31, 2005, for the year ended December 31, 2006 and for the year ended December 31, 2007, respectively. Our depreciation cost only consists of depreciation for the displays directly owned by us and not the displays owned by our direct investment entities. Generally, we capitalize the acquisition cost of our digital television displays and recognize depreciation on a straight-line basis over the term of their useful lives, which we estimate to be five years. The primary factors affecting our depreciation include the number of digital television displays in our network, the unit cost of each of our displays and the remaining useful life of our displays. We expect our depreciation to increase in future periods as a result of expanding our network by adding more displays.

**Business Taxes and Surcharges.** Our business taxes and surcharges accounted for nil, 1.0% and 4.0% of our total revenues for the period from April 8, 2005 (date of inception) to December 31, 2005, for the year ended December 31, 2006 and for the year ended December 31, 2007, respectively. Business taxes and surcharges include the 5% business tax and 3% surcharges that our PRC operating subsidiary must pay for revenues earned from advertising services provided in China.

**Table of Contents**

**Other Operating Costs.** Our other operating costs primarily consist of salaries and other expenses in relation to the maintenance, development and expansion of our network and accounted for nil, 2.7% and 1.7% of our total revenues for the period from April 8, 2005 (date of inception) to December 31, 2005, for the year ended December 31, 2006 and for the year ended December 31, 2007, respectively. We expect our other operating costs to increase in future periods as we expand our network in the cities where we already operate and into new cities. However, we expect our other operating costs to increase in future periods but remain a relatively small percentage of total revenues.

**Advertising Equipment Cost**

Our advertising equipment cost consists of the amounts we pay to our third-party suppliers for the digital television displays and other related equipment that we sell to our direct investment entities. Our advertising equipment cost accounted for 90.0%, 42.3% and 5.4% of our total revenues for the period from April 8, 2005 (date of inception) to December 31, 2005, for the year ended December 31, 2006 and for the year ended December 31, 2007, respectively. The major factors affecting our advertising equipment cost include the number of digital television displays we sell and the unit cost that we pay for the assembly of each display.

**Other Factors Affecting Our Results of Operations**

In addition to the factors discussed above, our reported results are also affected by the fluctuations in the value of the Renminbi against the U.S. dollar because our reporting currency is the U.S. dollar while the functional currency of our subsidiary and affiliated consolidated entities in China, which operate substantially all of our business, is the Renminbi. In 2007, 2006 and 2005, the Renminbi appreciated against the U.S. dollar by approximately 6.5%, 3.3% and 2.5%, respectively. The appreciation of the Renminbi against the U.S. dollar contributed to the increase in our net income reported in U.S. dollar terms in 2005, 2006 and 2007, respectively. For additional information relating to the fluctuations in the value of the Renminbi against the U.S. dollar, see Exchange Rate Information, 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 Quantitative and Qualitative Disclosure About Market Risk Foreign Exchange Risk.

**Operating Expenses**

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

	For the Period from April 8 to December 31, 2005		For the year ended December 31,			
	US\$	% of total revenues	2006		2007	
			US\$	% of total revenues	US\$	% of total revenues
Total revenues	290,521	100.0	3,872,882	100.0	29,385,591	100.0
Gross profit (loss)	29,017	10.0	(1,734,094)	(44.7)	15,000,309	51.0
Operating expenses:						
Selling and marketing	12,941	4.5	393,474	10.2	2,149,067	7.3
General and administrative	373,274	128.5	1,673,817	43.2	2,949,509	10.0
Total operating expenses	386,215	133.0	2,067,291	53.4	5,098,576	17.3

**Selling and Marketing.** Our selling and marketing expenses primarily consist of salaries and benefits for our sales staff, marketing and promotional expenses and other costs related to supporting our sales force. Selling and marketing expenses accounted for 4.5%, 10.2% and 7.3% of our total revenues for the period from April 8, 2005 (date of inception) to December 31, 2005, for the year ended December 31, 2006 and for the year

## **Table of Contents**

ended December 31, 2007, respectively. We increased our sales force to 120 employees as of December 31, 2007 from 59 employees as of December 31, 2006 and three employees as of December 31, 2005, which resulted in a significant increase in salary expenses. We expect selling and marketing expenses in future periods to increase as operations grow.

**General and Administrative.** Our general and administrative expenses primarily consist of salaries and benefits for management, accounting and administrative personnel, office rentals, depreciation of office equipment, professional service fees, maintenance, utilities and other office expenses. General and administrative expenses accounted for 128.5%, 43.2% and 10.0% of our total revenues for the period from April 8, 2005 (date of inception) to December 31, 2005, for the year ended December 31, 2006 and for the year ended December 31, 2007, 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.

## **Share-Based Compensation**

Our share-based compensation expenses represent the compensation expenses recognized in relation to the share options 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 7,000,000 common shares for issuance under the 2006 Plan. As of December 31, 2007, there were 4,838,359 share option outstanding to employees and consultants. Our total share-based compensation expenses accounted for nil, 2.0% and 0.8% of our total revenues for the period from April 8, 2005 (date of inception) to December 31, 2005, for the year ended December 31, 2006 and for the year ended December 31, 2007, respectively. We expect our share-based compensation expenses to increase in future periods as a result of further issuances of options to employees and consultants.

## **Loss from Equity Method Investees**

Our equity investments primarily consist of our investments in our nine direct investment entities that we account for using the equity method as of December 31, 2007. We expect our loss from our existing equity method investees to decrease as they finish building their networks and begin generating more revenues.

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

## **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.

## **Table of Contents**

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.

### ***Income taxes***

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

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

### ***Share-based compensation***

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

We have granted options to our employees and consultants as determined by our board of directors on the date of grant. For purposes of financial accounting, we have determined the values of the shares underlying our options by reference to transactions with third parties and by applying a blended income and market value approach to arrive at the fair values for the shares underlying our options. In the case of the options granted on December 8, 2006, July 6, 2007, August 30, 2007 and October 31, 2007, the fair value is the per share value of our common shares determined by us, with the assistance of an independent third-party valuation specialist, solely for the purpose of financial accounting for employee share-based compensation.

Determining the fair value of our common shares underlying the options granted on December 8, 2006, July 6, 2007, August 30, 2007 and October 31, 2007 required us to make complex and subjective judgments regarding projected financial and operating results, our unique business risks, the liquidity of our shares and our operating history and prospects at the time of grant. We used the income approach in conjunction with the market value approach by assigning a different weight to each of the approaches to estimate the enterprise value of our company when the option was granted. The income approach involves applying appropriate discount rates to estimated cash flows that are based on earnings forecasts. The assumptions used in deriving the fair value of our common shares are consistent with our business plan. These assumptions include: no material changes in the existing political, legal, fiscal and economic conditions in China; our ability to recruit

**Table of Contents**

and retain competent management, key personnel and technical staff to support our ongoing operation; and no material deviation in industry trends and market conditions from economic forecasts. These assumptions are inherently uncertain. The risks associated with achieving our forecasts were assessed in selecting the appropriate discount rates. If different discount rates had been used, the valuations would have been different and the amount of share-based compensation would also have been different because the fair value of the underlying common shares for the options granted would be different.

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

From April 8, 2005 (date of inception) to December 31, 2007, we granted the following options to our employees and consultants:

	Options Granted	Weighted- Average Exercise Price	Fair value of common shares	Weighted- Average Fair Value of Options	Type of valuation
December 8, 2006	1,894,000	0.86	0.60	0.19	(1)
April 6, 2007	800,739	1.90	1.52	0.22	(2)
May 16, 2007	200,000	1.84	1.52	0.33	(2)
July 6, 2007	1,230,000	3.545	1.78	0.04	(1)
August 30, 2007	1,005,900	6.545	2.71	0.07	(1)
October 31, 2007	760,000	6.545	6.31	1.30	(1)

(1) By a contemporaneous valuation by a third party valuation specialist.

(2) Based on the price of the Series B preferred shares that we issued and sold to third parties for cash.

For share options granted on December 8, 2006, July 7, 2007, August 30, 2007 and October 31, 2007, we used a combination of the income approach, also known as the discounted cash flow, or DCF, approach, and the market approach to assess the fair value of our common shares underlying the options granted on a contemporaneous basis.

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

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

Weighted average costs of capital, or WACC: We used an estimated WACC of 19.5% for the December 8, 2006 grants, 25% for the July 6, 2007 and August 30, 2007 grants and 20% for the October 31, 2007 grants, which was the combined result of the risk-free rate and our company-specific risk when we continued to grow and meet important milestones.

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

---

## **Table of Contents**

Discount for lack of marketability: We used a 15% discount rate for December 8, 2006 grants, 5% for the July 6, 2007 and August 30, 2007 grants and 3% for October 31, 2007 grants for lack of marketability of our common shares.

For the options granted in April and May 2007, management performed valuation to assess the fair value of our common shares underlying the options granted based on the price of the Series B preferred shares that we issued and sold to third parties for cash in March 2007. Series B preferred shares were issued to several institutional investors in March 2007 for cash at a price determined based on the agreed enterprise value of our company. As the transaction was carried out between unrelated parties at arm's length basis, we believe that the negotiated equity value represents the fair enterprise value of our company. We used an option-pricing model to allocate the total enterprise value of our company to preferred and common shares.

In addition, we estimate our expected forfeiture rate and recognize expense only for those options that are expected to vest. These estimations are based on past employee retention rates and our expectations of future retention rates. As our operating history is limited, we will prospectively revise our forfeiture rates based on actual history. Our compensation expense may change based on changes to our actual forfeitures.

Changes in these assumptions could significantly affect the amount of employee share-based compensation expense we recognize in our consolidated financial statements.

## **Taxation**

We are a tax exempted company incorporated in the Cayman Islands and conduct substantially all of our business through our PRC subsidiary, CDTC and our PRC variable interest entity, CDMTV. Both of 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 EIT Law and its implementation regulations became effective on January 1, 2008, as an enterprise located in the Shenzhen Special Economic Zone, both CDMTV and CDTC were allowed to enjoy a preferential EIT rate of 15%. In addition, since CDMTV has been recognized as a culture enterprise, CDMTV receives a full exemption from the EIT from 2005 to 2008.

Under the 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 EIT rate of CDTC is 18%, 20%, 22%, 24% and 25% in the year of 2008, 2009, 2010, 2011 and 2012, respectively, and the EIT rate of CDMTV is 0%, 20%, 22%, 24% and 25% in the year 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. 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.

**Table of Contents**

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

Furthermore, unlike the Income Tax Law for Enterprises with Foreign Investment and Foreign Enterprises that was replaced by the EIT Law, which specifically exempts withholding tax on any dividends payable to non-PRC investors, the EIT Law and implementation regulations provides that an income tax rate of 10% is normally applicable to dividends payable to non-PRC investors which are derived from sources within China, although such income tax may be exempted or reduced by the State Council of the PRC or pursuant to a tax treaty between China and the jurisdictions in which our non-PRC shareholders reside. We are a Cayman Islands holding company and substantially all of our income may be derived from dividends we receive from our operating subsidiary and consolidated affiliates established in China. If we declare dividends from such income, it may be deemed to be derived from sources within China under the EIT Law and be subject to income tax under the EIT Law. If we are required under the EIT Law to pay income tax for any dividends we received from our subsidiary in China, your investment in us may be materially and adversely affected. 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.

**Table of Contents****Selected Quarterly Results of Operations**

The following tables present certain unaudited consolidated quarterly financial data for each of the six quarters in the period from January 1, 2007 to June 30, 2008. You should read the following table in conjunction with our audited financial statements and related notes included elsewhere in this prospectus. We have prepared the unaudited consolidated quarterly financial information on substantially the same basis as our audited consolidated financial statements. The unaudited consolidated financial information includes all adjustments, consisting only of normal recurring adjustments, that we consider necessary for a fair presentation of our financial position and operating results for the quarters presented. Our operating results for any quarter are not necessarily indicative of results that may be expected for any future period.

	March 31, 2007	June 30, 2007	For Three Months Ended, September 30,      December 31, 2007                      2007		March 31, 2008	June 30, 2008
	(US\$, in thousands)					
<b>Consolidated Statement of</b>						
<b>Operations Data:</b>						
Revenues						
Advertising service revenues	3,105	3,990	8,707	11,687	13,229	20,165
Advertising equipment revenues	265	702	604	325	403	124
<b>Total revenues</b>	<b>3,370</b>	<b>4,692</b>	<b>9,311</b>	<b>12,012</b>	<b>13,632</b>	<b>20,289</b>
Cost of revenues						
Advertising service cost	(2,569)	(2,757)	(3,365)	(4,111)	(6,050)	(8,257)
Advertising equipment cost	(219)	(573)	(516)	(275)	(333)	(108)
<b>Total cost of revenues</b>	<b>(2,788)</b>	<b>(3,330)</b>	<b>(3,881)</b>	<b>(4,386)</b>	<b>(6,383)</b>	<b>(8,365)</b>
<b>Gross profit</b>	<b>582</b>	<b>1,362</b>	<b>5,430</b>	<b>7,626</b>	<b>7,249</b>	<b>11,924</b>
Operating expenses						
Selling and marketing	(177)	(320)	(718)	(934)	(1,620)	(2,987)
General and administrative	(553)	(518)	(680)	(1,198)	(817)	(991)
<b>Total operating expenses</b>	<b>(730)</b>	<b>(838)</b>	<b>(1,398)</b>	<b>(2,132)</b>	<b>(2,437)</b>	<b>(3,978)</b>
<b>Loss from equity method investees</b>	<b>(202)</b>	<b>(289)</b>	<b>(290)</b>	<b>(482)</b>	<b>(269)</b>	<b>(173)</b>
<b>Operating profit (loss)</b>	<b>(350)</b>	<b>235</b>	<b>3,742</b>	<b>5,012</b>	<b>4,543</b>	<b>7,773</b>
Interest income	14	44	39	409	918	733
Other expenses	(27)	(8)	(27)	(32)	(17)	(2)
<b>Net income (loss) before income taxes</b>	<b>(363)</b>	<b>271</b>	<b>3,754</b>	<b>5,389</b>	<b>5,444</b>	<b>8,504</b>
Income tax credit (expense)				332	(41)	(32)
<b>Net income (loss) after income taxes</b>	<b>(363)</b>	<b>271</b>	<b>3,754</b>	<b>5,721</b>	<b>5,403</b>	<b>8,472</b>
Minority interest				11	19	22
<b>Net income (loss)</b>	<b>(363)</b>	<b>271</b>	<b>3,754</b>	<b>5,732</b>	<b>5,422</b>	<b>8,494</b>
Share-based compensation expenses during the related periods included in:						
Cost of revenues	7	7	8	11	11	9
Selling and marketing expenses	3	41	23	69	136	347

General and administrative expenses	7	11	14	19	18	37
-------------------------------------	---	----	----	----	----	----

**Table of Contents****Results of Operations**

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

	<b>For the Period from April 8, 2005 to December 31, 2005</b>	<b>For the Year Ended December 31,</b>	
		<b>2006</b>	<b>2007</b>
	(US\$, except number of shares)		
<b>Condensed Consolidated Statement of Operations Data</b>			
Revenues			
Advertising service revenues		2,033,284	27,489,391
Advertising equipment revenues	290,521	1,839,598	1,896,200
<b>Total revenues</b>	<b>290,521</b>	<b>3,872,882</b>	<b>29,385,591</b>
Cost of revenues			
Advertising service cost		3,967,081	12,801,957
Advertising equipment cost	261,504	1,639,895	1,583,325
<b>Total cost of revenues</b>	<b>261,504</b>	<b>5,606,976</b>	<b>14,385,282</b>
Gross profit (loss)	29,017	(1,734,094)	15,000,309
Operating expenses			
Government grant		125,953	
Loss from equity method investees	(104,475)	(469,841)	(1,262,273)
<b>Operating profit (loss)</b>	<b>(461,673)</b>	<b>(4,145,273)</b>	<b>8,639,460</b>
Interest income	45,264	98,873	505,888
Other expenses		(22,608)	(95,719)
<b>Net income (loss) before income taxes</b>	<b>(416,409)</b>	<b>(4,069,008)</b>	<b>9,049,629</b>
Income tax credit			332,386
<b>Net income (loss) after income taxes</b>	<b>(416,409)</b>	<b>(4,069,008)</b>	<b>9,382,015</b>
Minority interest			11,343
<b>Net income (loss)</b>	<b>(416,409)</b>	<b>(4,069,008)</b>	<b>9,393,358</b>
Deemed dividend on convertible redeemable preferred shares		1,583,333	6,625,262
<b>Net income (loss) attributable to holders of common shares</b>	<b>(416,409)</b>	<b>(5,652,341)</b>	<b>2,768,096</b>
Net (loss) per common share:			
Basic	(0.02)	(0.26)	0.11
Diluted	(0.02)	(0.26)	0.11
Shares used in computation of net income (loss) per share:			
Basic	22,000,000	22,000,000	24,709,522
Diluted	22,000,000	22,000,000	25,771,702
Share-based compensation expenses during the related periods included in:			
Cost of revenues		37,576	34,431
Selling and marketing expenses		5,374	135,722

General and administrative expenses	35,802	51,209
-------------------------------------	--------	--------

**Table of Contents**

***Year Ended December 31, 2007 Compared to Year Ended December 31, 2006***

***Total Revenues.*** Our total revenues increased significantly to US\$29.4 million in 2007 from US\$3.9 million in 2006.

Our advertising service revenues increased significantly to US\$27.5 million in 2007 from US\$2.0 million in 2006. We experienced a significant increase in advertising service revenues primarily as a result of increased sales of advertising time on our mobile digital television advertising network. To a lesser extent, our advertising service revenues also increased due to sales of advertising time on our stationary advertising platform that commenced operations in May 2007. Our stationary advertising platform accounted for approximately 10.7% of our advertising service revenues in 2007. We also attribute the increase in our advertisement service revenues to the growth of our network to 14 cities as of December 31, 2007 from nine cities as of December 31, 2006. We expect our advertising service revenues from our mobile digital television advertising network and our stationary advertising platform to increase in future periods as our network further penetrates the out-of-home advertising market.

Our advertising equipment revenues were US\$1.8 million and US\$1.9 million in 2006 and 2007, respectively. We expect our advertising equipment revenues in future periods to decrease as a percentage of our total revenues as our existing direct investment entities finish the initial expansion of their local networks and scale back their purchases of digital television displays and related equipment from us. While we still plan to increase the number of our direct investment entities in future periods, we expect our advertising service revenues to grow faster than our advertising equipment revenues.

***Cost of Revenues.*** Our cost of revenues increased significantly to US\$14.4 million in 2007 from US\$5.6 million in 2006.

Our advertising service cost increased significantly to US\$12.8 million in 2007 from US\$4.0 million in 2006 due to the following reasons:

Our media cost increased significantly to US\$10.9 million in 2007 from US\$3.8 million in 2006. We experienced a significant increase in media cost primarily due to a large increase in the amount of network rental fees paid to our exclusive agency partner companies to secure advertising time. Our network rental fees for our exclusive agency cities increased significantly to US\$10.0 million in 2007 from US\$3.6 million in 2006. The number of cities operating under our exclusive agency model increased to five cities as of December 31, 2007 from one city as of December 31, 2006. To a lesser extent, we also attribute the increase in our media cost to (i) increased demand for advertising time in cities operating under our direct investment and outreach agency models that require us to purchase the advertising time from the local mobile digital television network operating in that city, and (ii) payments to the subway companies for our stationary advertising platform beginning in May 2007 to purchase advertising time on the stationary advertising platform in that city.

Our business tax increased to US\$1.2 million in 2007 from US\$0.04 million in 2006 as a result of the increase in our revenues.

Our other costs include salaries and expenses related to installation and maintenance of the displays in our network and increased to US\$0.5 million in 2007 from US\$0.1 million in 2006, primarily due to the expansion of our network into new cities and in the cities where we already operated.

Our depreciation increased to US\$0.2 million in 2007 from US\$0.01 million in 2006 as a result of the increase in the number of digital television displays located in our exclusive agency cities.



---

**Table of Contents**

Our advertising equipment cost was US\$1.6 million in 2007 compared to US\$1.6 million in 2006.

**Gross Profit (Loss).** As a result of the foregoing, our gross profit was US\$15.0 million in 2007 compared to a gross loss of US\$1.7 million in 2006. Our gross margin increased to 51.0% in 2007 from negative 44.8% in 2006. Our gross margin increased primarily due to the fact that the increase in our total revenues outpaced the increase in our cost of revenues. In addition, our advertising service revenues accounted for a larger percentage of our total revenues in 2007 compared to the same period in 2006, and we recognized a higher gross margin for our advertising service revenues compared to our advertising equipment revenues in 2007.

**Operating Expenses.** Our operating expenses increased significantly to US\$5.1 million in 2007 from US\$2.1 million in 2006.

**Selling and Marketing.** Selling and marketing expenses increased significantly to US\$2.1 million in 2007 from US\$0.4 million in 2006. Our selling and marketing expenses increased mainly due to expansion of our sales force along with increases in marketing and promotional expenses incurred by our sales force. The number of our selling and marketing employees increased to 120 as of December 31, 2007 from 59 as of December 31, 2006. Our share-based compensation expenses accounted for under selling and marketing expenses increased to US\$135,722 in 2007 from US\$5,374 in 2006 in relation to options we granted to incentivize our sales and marketing employees.

**General and Administrative.** General and administrative expenses increased to US\$2.9 million in 2007 from US\$1.7 million in 2006. Our general and administrative expenses increased mainly due to the increase in the size of our administrative staff to support our growing operations and the incremental expenditures associated with our initial public offering. Our share-based compensation expenses accounted for under general and administrative expenses increased to US\$51,201 in 2007 from US\$35,802 in 2006 in relation to options we granted to incentivize our employees.

**Loss from Equity Method Investees.** Our loss from equity method investees increased to US\$1.3 million in 2007 from US\$0.5 million in 2006. We experienced an increase in our loss from equity method investees as a result of (i) an increase in the number of equity method investees to nine as of December 31, 2007 from four as of December 31, 2006 and (ii) the continued expansion of the local networks of our equity method investees. We expect the loss from our existing equity method investees to decrease in future periods as they finish the initial expansion of their local networks and begin to generate advertising service revenues.

**Operating Profit (Loss).** As a result of the foregoing, our operating profit amounted to US\$8.6 million in 2007 as compared to an operating loss of US\$4.1 million in 2006.

**Interest Income.** Our interest income increased to US\$0.5 million in 2007 from US\$0.1 million in 2006, primarily as a result of higher cash and cash equivalent balances provided by our financing activities. In April 2006, we received US\$14.3 million gross proceeds from the issuance of Series A convertible preferred shares. In March and July 2007, we received an aggregate of US\$40 million gross proceeds from the issuance of Series B convertible preferred shares. In December 2007, we received an aggregate of US\$100.4 million gross proceeds from our initial public offering.

**Other Expenses.** Our other expenses increased to US\$0.1 million in 2007 from US\$0.02 million in 2006 primarily as a result of exchange rate losses we incurred due to appreciation of the Renminbi against the U.S. dollar.

**Income Taxes.** We recognized an income tax benefit of US\$0.3 million in 2007, primarily attributable to previous losses carried forward.

---

**Table of Contents**

**Minority Interest.** Our minority interest was US\$0.01 million in 2007 as a result of the establishment of a new direct investment entity, Guangzhou Jiaojian Multimedia Information Technology Co. Ltd., in 2007.

**Net Income (Loss).** As a result of the foregoing, our net income amounted to US\$9.4 million in 2007 as compared to a net loss of US\$4.1 million in 2006.

***Year Ended December 31, 2006 Compared to the Period from April 8, 2005 (date of inception) to December 31, 2005***

*The financial results discussed below are not comparable on an equal basis because we were founded on April 8, 2005 and had our first full year of operations in 2006. Our network consisted of 16,809 digital television displays as of December 31, 2006 and 667 digital television displays as of December 31, 2005.*

**Total Revenues.** Our total revenues amounted to US\$3.9 million for the year ended December 31, 2006 and US\$0.3 million for the period from April 8, 2005 (date of inception) to December 31, 2005.

Our advertising service revenues amounted to US\$2.0 million for the year ended December 31, 2006 and nil for the period from April 8, 2005 (date of inception) to December 31, 2005. Our advertising service revenues increased in 2006 as we only began recognizing advertising revenues in 2006.

Our advertising equipment revenues amounted to US\$1.8 million in 2006 and US\$0.3 million for the period from April 8, 2005 (date of inception) to December 31, 2005. Our advertising equipment revenues increased because the number of our direct investment entities increased to eight as of December 31, 2006 from three as of December 31, 2005, and as part of their expansion, our direct investment entities purchased more digital television displays and related equipment from us.

**Cost of Revenues.** Our cost of revenues amounted to US\$5.6 million in 2006 and US\$0.3 million for the period from April 8, 2005 (date of inception) to December 31, 2005.

Our advertising service cost amounted to US\$4.0 million for the year ended December 31, 2006 and nil for the period from April 8, 2005 (date of inception) to December 31, 2005.

Our media cost amounted to US\$3.8 million for the year ended December 31, 2006 and nil for the period from April 8, 2005 (date of inception) to December 31, 2005. We began to incur media cost in 2006 after we entered into our first exclusive agency agreement in 2006. In addition, we purchased advertising time from our direct investment entities and from other mobile digital television stations in 2006 through our outreach agency model.

Our depreciation amounted to US\$12,606 for the year ended December 31, 2006 and nil for the period from April 8, 2005 (date of inception) to December 31, 2005. Our depreciation increased in 2006 as the number of digital television displays in our network increased to 16,809 as of December 31, 2006 from 667 as of December 31, 2005.

Our business taxes and surcharges amounted to US\$39,940 for the year ended December 31, 2006 and nil for the period from April 8, 2005 (date of inception) to December 31, 2005.

Our other costs include salaries and expenses related to installation and maintenance of the digital television displays in our network and amounted to US\$0.1 million for the year ended December 31, 2006 and nil for the period from April 8, 2005 (date of inception) to December 31, 2005.

## Edgar Filing: VISIONCHINA MEDIA INC. - Form F-1

Our advertising equipment cost amounted to US\$1.6 million for the year ended December 31, 2006 and US\$0.3 million for the period from April 8, 2005 (date of inception) to December 31, 2005. Our advertising equipment cost increased in 2006 as we purchased more digital television displays from our suppliers for resale to our direct investment entities.

## **Table of Contents**

**Gross Profit (Loss).** As a result of the foregoing, our gross loss amounted to US\$1.7 million for the year ended December 31, 2006, and our gross profit amounted to US\$29,017 for the period from April 8, 2005 (date of inception) to December 31, 2005.

**Operating Expenses.** Our operating expenses amounted to US\$2.1 million for the year ended December 31, 2006 and US\$0.4 million for the period from April 8, 2005 (date of inception) to December 31, 2005. The number of our employees increased to 92 as of December 31, 2006 from 17 as of December 31, 2005.

**Selling and Marketing.** Selling and marketing expenses amounted to US\$393,474 for the year ended December 31, 2006 and US\$12,941 for the period from April 8, 2005 (date of inception) to December 31, 2005. Our share-based compensation expenses accounted for under selling and marketing expenses increased to US\$5,374 in 2006 from nil for the period from April 8, 2005 (date of inception) to December 31, 2005 in relation to options we granted to incentivize our sales and marketing employees.

**General and Administrative.** General and administrative expenses amounted to US\$1.7 million for the year ended December 31, 2006 and US\$0.4 million for the period from April 8, 2005 (date of inception) to December 31, 2005. Our share-based compensation expenses accounted for under general and marketing expenses increased to US\$35,802 in 2006 from nil for the period from April 8, 2005 (date of inception) to December 31, 2005 in relation to options we granted to incentivize our employees.

**Government Grant.** Our government grant amounted to US\$125,953 for the year ended December 31, 2006 and nil for the period from April 8, 2005 (date of inception) to December 31, 2005.

**Loss from Equity Method Investees.** Our loss from equity method investees amounted to US\$469,841 for the year ended December 31, 2006 and US\$104,475 for the period from April 8, 2005 (date of inception) to December 31, 2005.

**Operating Loss.** As a result of the foregoing, our operating loss amounted to US\$4.1 million for the year ended December 31, 2006 and US\$0.5 million for the period from April 8, 2005 (date of inception) to December 31, 2005.

**Interest Income.** Our interest income amounted to US\$98,873 for the year ended December 31, 2006 and US\$45,264 for the period from April 8, 2005 (date of inception) to December 31, 2005.

**Other Expenses.** Our other expenses amounted to US\$22,608 for the year ended December 31, 2006. We did not incur any other expenses for the period from April 8, 2005 (date of inception) to December 31, 2005.

**Net Loss.** As a result of the foregoing, our net loss amounted to US\$4.1 million for the year ended December 31, 2006 and US\$0.4 million for the period from April 8, 2005 (date of inception) to December 31, 2005.

## **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 the Series A and Series B convertible preferred shares, proceeds from our initial public offering and cash flows from operations. We raised US\$14.3 million from the issuance of Series A convertible preferred shares in April 2006 and US\$40.0 million from the issuance of Series B convertible preferred shares in March and July 2007. In December 2007, we received gross proceeds of US\$100.4 million from our initial public offering. We believe that our current levels of cash and cash flows from operations will be sufficient to meet our anticipated cash needs for at least the next 12 months.

**Table of Contents**

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

As of December 31, 2007, we had US\$131.1 million in cash. Our cash primarily consists of cash on hand and cash deposited in banks and interest-bearing savings accounts.

We did not generate net income for any quarter since our inception until the three months ended June 30, 2007, in which we generated net income of US\$0.3 million. We generated net income of US\$9.4 million in 2007. We intend to maintain our current policies for collections of accounts receivable, which provide a 90-day credit period following the month in which the advertisement is displayed. We expect our accounts receivable to increase as a result of the rapid growth in our advertising service revenues. As we expect the out-of-home advertising market in China to continue growing, we plan to continue expanding our network in the cities where we already operate and into new cities. We also plan to implement new digital technologies and techniques, such as scrolling information bars, to enhance the effectiveness of our advertising network. These scrolling information bars help increase the effectiveness of our advertising network by continuously displaying real-time information such as news or stock quotes. As a result, we expect these measures to help increase demand for our advertising time. 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 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.

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

	For the Year Ended December 31,		
	2005	2006 (US\$)	2007
Net cash used in operating activities	(295,690)	(7,825,769)	(6,000,540)
Net cash used in investing activities	(3,282,573)	(3,399,853)	(8,193,279)
Net cash provided by financing activities	6,060,137	13,636,994	138,822,631
Effect of changes in exchange rate	117,204	205,243	1,295,154
Net increase in cash and cash equivalents	2,599,078	2,616,615	125,923,966
Cash and cash equivalents, beginning of period/year		2,599,078	5,215,693
Cash and cash equivalents, end of period/year	2,599,078	5,215,693	131,139,659

**Operating Activities**

Our net cash used in operating activities amounted to US\$6.0 million in 2007, US\$7.8 million in 2006 and US\$0.3 million in the period from April 8, 2005 (date of inception) to December 31, 2005. Our net cash used in operating activities decreased in 2007 primarily as a result of operating income of US\$8.6 million in 2007.

**Investing Activities**

Our net cash used in investing activities amounted to US\$8.2 million in 2007, US\$3.4 million in 2006 and US\$3.3 million in the period from April 8, 2005 (date of inception) to December 31, 2005. Our net cash used in investing activities increased in 2007 primarily due to acquisition of fixed assets of US\$4.3 million in order to expand our advertising network.

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

Our net cash provided by financing activities amounted to US\$138.8 million in 2007, US\$13.6 million in 2006 and US\$6.1 million in the period from April 8, 2005 (date of inception) to December 31, 2005. Our net cash provided by financing activities in 2006 primarily consisted of proceeds from our issuance of Series A convertible preferred shares in 2006, while our net cash provided by financing activities in 2007 primarily consisted of proceeds from our issuance of Series B convertible preferred shares and from our initial public offering in December 2007.

**Capital Expenditures**

We had capital expenditures of US\$4.3 million for the year ended December 31, 2007, US\$0.4 million for the year ended December 31, 2006 and US\$54,826 for the period from April 8, 2005 (date of inception) to December 31, 2005. 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 2008 to primarily consist of purchases of digital television displays and related equipment as we continue to expand our mobile digital television advertising network. As opportunities arise, we may make acquisitions of other businesses that complement our operations. We believe that we will be able to fund these upgrades and equipment purchases through our internal cash, and do not anticipate that these obligations will have a material impact on our liquidity needs.

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

**Contractual Obligations and Commercial Commitments**

The following table sets forth our contractual obligations and commercial commitments as of December 31, 2007:

	Total	Less than 1 year	1-3 years (US\$)	3-5 years	More than 5 years
Long-term purchase agreement	129,686,869	14,685,716	32,239,332	29,786,929	52,974,892
Operating lease obligations	1,433,534	537,618	400,590	202,608	292,718
<b>Total contractual obligations</b>	<b>131,120,403</b>	<b>15,223,334</b>	<b>32,639,922</b>	<b>29,989,537</b>	<b>53,267,610</b>

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

We have entered into several agreements under our exclusive agency model to purchase advertising time from local mobile digital television companies for a period of five to ten years. As of December 31, 2007, future minimum purchase commitments under these agreements totaled approximately US\$129.7 million.

**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.

**Table of Contents****Inflation**

In recent years, China has not experienced significant inflation, and thus inflation has not had a material impact on our results of operations. According to the PRC National Bureau of Statistics, the change in Consumer Price Index in China was 1.8%, 1.5% and 4.8% in 2005, 2006 and 2007, respectively.

**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 CDTC and CDMTV 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 initial public offering 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. Considering the amount of our cash balance as of December 31, 2007, a 1.0% change in the exchange rates between the Renminbi and the U.S. dollar will result in an increase or decrease of RMB9.6 million (US\$1.3 million) for our total amount of cash balance. We received net proceeds from our initial public offering of approximately US\$96.7 million, after deducting underwriting discounts and commissions and the estimated offering expenses payable by us. Assuming that we convert the full amount of the net proceeds we receive from this offering into Renminbi, a 1.0% change in the exchange rates between the Renminbi and the U.S. dollar will result in an increase or decrease of RMB            million (US\$            million) of the net proceeds from this offering.

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***

We have not been, nor do we anticipate being, exposed to material risks due to changes in interest rates. Our risk exposure to changes in interest rates relates primarily to the interest income generated by cash deposited in interest-bearing savings accounts. We did not have any bank borrowing as of December 31, 2007. We have not used, and do not expect to use in the future, any derivative financial instruments to hedge our interest risk exposure.

**Recently Issued Accounting Standards**

In September 2006, the Financial Accounting Standards Board ( FASB ) issued SFAS No. 157, Fair Value Measurement, or SFAS 157. SFAS 157 addresses standardizing the measurement of fair value for

## **Table of Contents**

companies that are required to use a fair value measure of recognition for recognition or disclosure purposes. The FASB defines fair value as 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 measure date. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. We are currently evaluating the impact, if any, of SFAS 157 on its financial position, results of operations and cash flows.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, or SFAS 159. SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. We are currently evaluating the impact of SFAS No. 159.

In June 2007, the FASB also ratified EITF 07-3, Accounting for Nonrefundable Advance Payments for Goods or Services Received for Use in Future Research and Development Activities, or EITF 07-3. EITF 07-3 requires that nonrefundable advance payments for goods or services that will be used or rendered for future research and development activities be deferred and capitalized and recognized as an expense as the goods are delivered or the related services are performed. EITF 07-3 is effective for fiscal years beginning after December 15, 2007. We are currently evaluating the impact of EITF 07-3. We do not expect the adoption of EITF 07-3 to have a material effect on the consolidated results of operations and financial condition.

In December 2007, the FASB issued SFAS No. 141R, Business Combination, or SFAS 141R, to improve reporting creating greater consistency in the accounting and financial reporting of business combinations. The standard requires the acquiring entity in a business combination to recognize all (and only) the assets acquired and liabilities assumed in the transaction; establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed; and requires the acquirer to disclose to investors and other users all of the information they need to evaluate and understand the nature and financial effect of the business combination. SFAS 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. An entity may not apply it before that date. We are currently evaluating whether the adoption of SFAS 141R will have a significant effect on its consolidated financial position, results of operations or cash flows.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements, or FASB 160, to improve the relevance, comparability, and transparency of financial information provided to investors by requiring all entities to report noncontrolling (minority) interests in subsidiaries in the same way as required in the consolidated financial statements. Moreover, SFAS 160 eliminates the diversity that currently exists in accounting for transactions between an entity and noncontrolling interests by requiring they be treated as equity transaction. SFAS 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Earlier adoption is prohibited. We are currently evaluating whether the adoption of SFAS 160 will have a significant effect on its consolidated financial position, results of operations or cash flows.

In March 2008, the FASB issued SFAS No. 161, Disclosures About Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133. The new standard requires enhanced disclosures to help investors better understand the effect of an entity's derivative instruments and related hedging activities on its financial position, financial performance, and cash flows. Statement No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. We will adopt SFAS No. 161 on January 1, 2009.

**Table of Contents****OUR INDUSTRY**

China has the largest advertising market in Asia, excluding Japan, and it is one of the largest and fastest growing in the world, representing the fifth largest advertising market in 2007 by media expenditure according to ZenithOptimedia.

**The Advertising Market in China**

**Fast growing Chinese economy.** The Chinese advertising market grew in recent years as a result of, among other factors, the rapid increase in disposable income and consumption of urban residents in China. The National Bureau of Statistics of China reported that the annual disposable income per capita in urban households increased from RMB8,472 in 2003 to RMB13,786 in 2007, representing a CAGR of 12.9%. In Beijing, Guangzhou and Shenzhen, where we have major operations, the urban household annual disposable income per capita in 2006 was RMB19,978, RMB19,851 and RMB22,567, respectively, representing a level significantly above the national average.

**Large size and high growth.** China has the largest advertising market in Asia excluding Japan as measured by total advertising expenditure. According to ZenithOptimedia, advertising spending in China in 2007 was approximately US\$16.0 billion, accounting for 31.9% of the total advertising spending in Asia excluding Japan. ZenithOptimedia also projected that the advertising market in China will be one of the fastest growing advertising markets in the world in the next three years, at a CAGR of 17.8% from 2007 to 2010. By 2010, China is projected to account for 36.8% of the total advertising spending in Asia excluding Japan. The following table illustrates the amount of advertising expenditure in China from 2003 to 2007, with projections from 2008 to 2010. The table also shows the percentages of total advertising expenditures in Asia excluding Japan that China comprises for the same periods.

	China Advertising Spending (US\$ in millions)	As % of Asia excluding Japan
2003	8,520	26.9%
2004	9,518	27.2%
2005	11,084	28.8%
2006	13,327	30.6%
2007	16,049	31.9%
2008E	20,319	35.2%
2009E	22,951	36.0%
2010E	26,243	36.8%

Source: ZenithOptimedia (June 2008)

We believe the advertising market in China has the potential for considerable and sustained growth due to the relatively low levels of advertising spending per capita and advertising spending as a percentage of GDP in China, as compared to more developed countries or regions. The following table sets forth the advertising spending per capita and as a percentage of GDP in the countries and regions listed below for 2006.

	Advertising spending in 2006	
	Per capita(US\$)	% of GDP
China	10.1	0.48
Hong Kong	398.9	1.50
South Korea	193.1	1.02
Taiwan	69.4	0.44
Japan	318.5	0.94
Asia excluding Japan weighted average	13.6	0.68
United States	577.3	1.33
United Kingdom	395.3	0.92

Source: ZenithOptimedia (June 2008)



---

## **Table of Contents**

**Urban concentration.** Historically, advertising spending in China has been highly concentrated in more economically developed urban areas where income per capita is much higher than that in rural areas in China. In 2005, the advertising spending in Beijing, Shanghai and Guangdong province (which includes major cities of Guangzhou and Shenzhen), which were among China's most affluent urban areas, accounted for 15.8%, 18.8% and 16.6%, respectively, of the total advertising spending in China, according to China Infobank, an independent researcher and provider of China's business information.

**Television advertising.** Television advertising accounts for the most significant portion of the total advertising spending in China. According to the National Bureau of Statistics, at the end of 2006, China had 296 television stations which broadcast 13.6 million hours of television programs to 96.2% of China's population. According to ZenithOptimedia, spending on television advertising was US\$6.2 billion in China in 2007, and is projected to grow to US\$9.1 billion in 2010, representing a CAGR of 13.8% from 2007 to 2010. We believe television will remain as a strong advertising medium in China in the foreseeable future primarily due to China's strong economic development.

### **Out-of-Home Advertising Market in China**

The advertising industry is generally divided into television, newspaper, magazine, radio and other advertising media, which includes out-of-home, billboard, cinema, and Internet advertising. Other advertising media accounts for a larger percentage of total advertising spending in China than in other countries, accounting for 23.9% of the total major media advertising spending in China in 2007, as compared to 13.2% in the United States, according to ZenithOptimedia. Spending on other advertising media in China was US\$3.8 billion in 2007, and is projected to grow to US\$8.5 billion in 2010, representing a CAGR of 30.3% from 2007 to 2010.

We believe the wide acceptance of out-of-home advertising in China as an important advertising medium is due to various reasons, including:

***An alternative and supplement to other advertising media.*** Out-of-home advertising media offer alternatives to reach viewers and supplement other media in an advertiser's overall advertising strategies. Technological innovations in recent years, including the development of digital audio and video content transmission technologies, have enhanced the attractiveness of out-of-home media to advertisers with new means to reach consumers in a wider range of locations.

***Effective audience reach.*** Most out-of-home advertising displays are placed in locations where there is less competition for viewers' attention, such as elevator banks, lobbies or on mass transportation systems. The displays are often the only form of media provided in these environments.

Mobile digital television operations combine the advantages of both traditional television and out-of-home media by broadcasting real-time programs and advertising content in out-of-home locations such as buses, subway stations and other high-traffic public locations. Accordingly, we believe that the mobile digital television advertising market will benefit from the development of both television advertising and out-of-home advertising markets in China.

The mobile digital television advertising industry is still a relatively new market segment in China. As a result, we do not know of any reliable third-party industry research that has separated mobile digital television advertising spending as an individual segment of out-of-home advertising spending or total advertising spending in China.

**Table of Contents****Mobile Digital Television Advertising Network on Mass Transportation Systems**

Digital displays installed on mass transportation vehicles were first introduced in China in May 2002 and are becoming more popular in a diversifying out-of-home advertising market. We believe that mobile digital television advertising networks installed on mass transportation systems particularly appeal to advertisers due to the following characteristics of such networks:

***Economics and demographics.*** Cities in China have higher population densities than most cities in other countries. Out-of-home advertising media, such as television displays installed on the mass transportation systems, typically are more effective in places with high population density. The relatively low private vehicle ownership in China, as compared to more developed countries, also contributes to the large number of people taking mass transportation. The National Bureau of Statistics of China reported that at the end of 2006, there were 18.2 million passenger vehicles in private possession in China, equivalent to approximately 4% of China's households. In addition, with increased business activities, more consumers spend greater periods of time out of home, a significant portion of which is spent in mass transportation systems. According to a CTR study commissioned by us in September 2007, over 25 million trips were taken daily on public buses with mobile digital television displays in Beijing, Changchun, Chengdu, Dalian, Harbin, Nanjing, Ningbo, Shenzhen, Suzhou, Wuhan, Wuxi and Zhengzhou combined. We have mobile digital television advertising operations in each of these cities either through exclusive arrangements, direct investment entities, or both. According to a separate CTR report commissioned by us in September 2007, over 45% of people in the same 12 cities commute by bus each day, and over 70% of the people in the same 12 cities have commuted by bus in the past four weeks. In particular, approximately 49% of people in Beijing commute by bus each day. To capture the attention of China's mobile population in transit, we believe advertisers are increasingly willing to allocate a larger portion of their advertisement spending from traditional media to new media such as mobile digital television network.

***Attractive television programs.*** Digital television displays installed on the mass transportation systems extend television services to mass transportation systems, providing advertisers with the advantages of both at-home television and out-of-home media. Since the television content is transmitted based on wireless and digital technologies, this network has the ability to broadcast real-time content, such as news, sports and stock market information. According to a survey commissioned by us and conducted by CTR in September 2007 covering Beijing, Dalian and Chengdu, approximately 97% of viewers stated that they liked or were neutral towards the presence of our displays in the buses and our programs. We believe this level of acceptance results from the viewers' willingness to watch programs and accompanying advertisements in situations where they are otherwise idle.

***Effective audience reach.*** The displays in mass transportation systems are often the only form of media provided in such environments; thus, people are more willing to watch the programs on the displays and the accompanying advertisements. According to the same CTR survey in Beijing, Dalian and Chengdu, 97% and 93% of the bus passengers surveyed on average paid attention to the displays installed on the buses they took during weekdays and weekends, respectively. These viewers took bus an average of 12.9 times per week, and spent an average of 15.5 minutes (approximately half of the average trip length of 33.8 minutes they spent on the buses) watching the programs and advertisements showed on the displays on each trip. According to a survey commissioned by us and conducted by CTR in September 2007 covering Shenzhen's subway platform, 87% and 83% of the subway passengers surveyed on average paid attention to the displays installed on the subway platforms during weekdays and weekends, respectively. These viewers took the subway an average of 7.3 times per week, and spent an average of 3.4 minutes on the subway platform each trip.

***Cost effectiveness.*** Television advertising placed in mass transportation vehicles, such as buses, where a large number of people congregate, can reach consumers at a lower cost than most mass media advertising, such as at-home television. The cost to reach a thousand consumers, or CPM, is

**Table of Contents**

the standard metric used in the advertising industry to determine cost effectiveness. According to a CTR study in September 2007 commissioned by us, the CPM for advertising on the mobile digital television networks on buses was significantly lower than that on local television channels, as indicated in the following table:

City	Average Daily CPM			
	Mobile Digital TV		Traditional TV Channel	
	Weekdays	Weekends	Weekdays	Weekends
	(RMB)			
Beijing	2.4	2.3	82.6	79.5
Chengdu	7.3	7.2	1,349.5	1,204.4
Nanjing	9.5	9.6	226.6	185.4
Shenzhen	13.7	14.4	637.9	679.3
Wuxi	45.5	47.1	122.5	132.3

In addition, the industry of mobile digital television advertising has the following features which we believe will make it difficult for new entrants to establish a mobile digital television network:

**Stringent government regulations.** China's broadcasting industry is characterized by tight government control and strict regulation. The PRC government strictly controls the television, internet, radio, film, newspaper, and all news related industries. See Regulation. Due to these stringent governmental controls and regulations, the cooperation of local television stations that have obtained the required government permits and licenses is necessary to operate television broadcasting of programs and advertisements. In each major Chinese city, there are typically not more than two television stations that can serve as a business partner to operate a mobile digital television advertising network in that city.

**Technology standard.** To cover a big geographic region and reach a large number of out-of-home people, mobile digital television networks must be based on wireless communication technology in broadcasting digital television content. In addition, sophisticated technologies are necessary to ensure the television content transmitted in digital format is received by mobile digital television displays. Mobile digital television operators in China have used several standards for mobile digital television transmission, including the European standard and the standards developed by Tsinghua University and Shanghai Jiaotong University. The PRC government has adopted a national standard that is the integration of the standards developed by Tsinghua University and Shanghai Jiaotong University. The National Standard has become effective on August 1, 2007.

---

**Table of Contents**

**BUSINESS**

**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. We operate our advertising business in China through our consolidated affiliated entity, CDMTV, due to PRC regulatory restrictions on foreign investments in the advertising and mobile digital television industries. Our relationships with CDMTV and its shareholders are governed by a series of contractual arrangements that allow us to effectively control, and derive substantially all of the economic benefits from, CDMTV. Our mobile digital television advertising network, or our network, which delivers real-time content provided by the local television stations in addition to advertising, differentiates us from other out-of-home advertising networks in China, and we believe this facilitates our future expansion into different advertising media platforms. Our advertising network consists of digital television displays located on buses and in other selected locations, such as in subway trains in Beijing, that receive mobile digital television broadcasts of real-time content and advertising. As a supplement to our mobile digital television advertising network, we also operate a stationary advertising platform in subway stations in three major cities in China: Guangzhou, Shanghai (since July 1, 2008) and Shenzhen. As of June 30, 2008, our network and stationary advertising platform covered 16 cities in China and consisted of approximately 60,160 digital displays. In addition, we have expanded the geographic reach of our advertising operations by purchasing advertising time on existing mobile digital television networks in cities outside of our network to place advertisements pursuant to the demands of our clients.

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

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

We principally derive revenues by selling advertising time during breaks in between the programs on our network and stationary 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 use the following business models for our mobile digital television advertising operations in China:

*Exclusive agency model* refers to our arrangements, with terms typically ranging from four years to 12 years, in 12 cities: Beijing, Changchun, Chengdu, Dalian, Guangzhou, Nanjing, Ningbo, Shenyang, Shenzhen, Taiyuan, Wuhan and Wuxi. We have entered into an exclusive advertising agency agreement with the partner local mobile digital television company in each city that typically gives us the exclusive right to sell all of the advertising time on our local partner's mobile digital

---

## **Table of Contents**

television network primarily located on buses. Those buses are operated by bus companies that have entered into contracts with our local partners or our local affiliate. In the case of Guangzhou, those buses also include buses operated by a bus company with which we expect to enter into a contract through our local affiliate in the future. Our exclusive agency arrangement in Wuxi that gives us the exclusive right to sell a portion of the advertising time on Wuxi's mobile digital television network does not include sales of advertising time to advertisers from Wuxi.

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

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

Through June 30, 2008, more than 590 advertisers had purchased advertising time on our mobile digital television advertising network or our stationary 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 pursuant to contracts with an average duration of approximately three months. Our top three international and domestic brand name advertisers, Sanchine Pharmaceutical Co., Ltd., Nice Group Co., Ltd. and Coca-Cola Company, in aggregate accounted for approximately 32.0% of our advertising service revenues for the six months ended June 30, 2008. We believe the appeal and effectiveness of our advertising network is largely evidenced by the number of advertisers who place repeated and multiple advertising campaigns on our network. We generated total revenues of US\$33.9 million in the six months ended June 30, 2008, US\$29.4 million in 2007 and US\$3.9 million in 2006. We achieved a net income of US\$13.9 million for the six months ended June 30, 2008 and US\$9.4 million in 2007, compared to a net loss of US\$4.1 million in 2006.

### **Our Competitive Strengths**

We believe that we have the following competitive strengths:

#### ***The Largest Mobile Digital Television Advertising Network Operator Covering Mass Transportation in China Based on the Number of Displays***

We believe that our early market presence and large-scale mobile digital television advertising network provide us with a competitive advantage over our existing and future competitors.

***Early market presence.*** We were one of the first companies to establish a large-scale mobile digital television advertising network in the mass transportation systems of major Chinese cities, such as Beijing, Chengdu, Nanjing and Shenzhen. By recognizing this market opportunity and entering into this sector early, we have secured long-term contracts with key licensed mobile digital television companies and established barriers to entry for potential competitors. Through our exclusive advertising agency agreements and direct investment agreements, we secured the rights to place advertisements on local mobile digital television networks in many cities in China. We believe that this early market presence provides us with a substantial advantage because PRC regulatory authorities typically only permit a maximum of two mobile digital television operators in each city.

---

## **Table of Contents**

As a result, we control a substantial portion of the market for advertising on local mobile digital television in the cities where we have signed exclusive advertising agency agreements and direct investment agreements.

***Large-scale, national network that attracts advertising clients.*** We believe that we operate the largest out-of-home real-time mobile digital television advertising network covering mass transportation in China based on the number of displays in our network. Our mobile digital television advertising network and stationary advertising platform includes digital television displays located in the mass transportation system of 16 cities throughout China as of June 30, 2008. We believe that our broad geographic coverage and our strong presence in many major cities in China, such as Beijing, Chengdu, Guangzhou, Nanjing, Shanghai (since July 1, 2008) and Shenzhen, make us attractive to advertisers who wish to reach diverse consumers in cities across China. Our extensive operations offer our advertising clients the ability to reach a wide audience in urban consumer markets across China and provide the convenience of a one-stop solution for the simultaneous placement of advertising in multiple cities. We believe the size and scope of our network have attained a scale that draws advertising clients to our network, resulting in our ability to charge higher prices for our advertising time as compared to local broadcasting networks.

### ***Real-Time Ability to Deliver Time-Specific and Location-Based Content and Advertising***

We believe that our advertising network provides our advertising clients with an effective method of delivering advertising to an audience drawn by real-time broadcasts of news and entertainment. Many traditional advertising platforms suffer from a phenomenon known as advertiser fatigue, where viewers begin to tune out the repeated advertisements. Our network delivers real-time advertising mixed with the real-time content provided by the local television stations, and we believe this gives us a significant competitive advantage over other out-of-home advertising companies in China. Our network delivers a wide variety of programs provided by the local television stations, including real-time news and stock quotes, weather and traffic updates, sports highlights and other entertainment programs. The real-time programs on our network provide unique entertainment interspersed with advertising to capture the attention of passengers during their daily commutes. Our platform also allows the local television stations to provide location-based content and advertising tailored to the targeted city with scrolling news bars to display the latest news. Additionally, our platform gives us the ability to vary the content and advertisements throughout the day. For example, during typical school commuting hours, the network can broadcast programs and advertising targeted toward youth, and during typical office commuting hours, the network can broadcast programs and advertising targeted toward adults. We believe this provides us with a competitive advantage over other out-of-home advertising networks. In addition, the real-time broadcasting platform reduces the ongoing maintenance costs for operating our network. Unlike other out-of-home advertising networks in China that require manual labor to update the content on a regular basis, our digital television displays installed on buses receive content over the airwaves through real-time transmissions of the programming. 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.

### ***Exclusive and Long-term Contractual Arrangements***

We believe the following factors create barriers to entry for our existing and prospective competitors:

***Long-term and exclusive agreements to secure the ability to place advertisements in conjunction with real-time content.*** We have established long-term agreements with our exclusive agency partners. Our exclusive agency agreements, which typically have a term ranging from four years to 12 years, grant us the right to place advertisements on mobile digital television networks. This enables us to effectively control a substantial portion of the mobile digital television advertising market in many cities in China and create barriers to entry for significant lengths of time.

## **Table of Contents**

***Long-term and exclusive agreements with bus companies to install digital television displays.*** In most of our exclusive agency and direct investment cities, we directly or indirectly maintain long-term placement agreements with major local bus companies which give us the exclusive right to install and operate digital television displays that receive mobile digital television broadcasts. Most of these long-term agreements have a term ranging from four years to 12 years. Our exclusive right to install and operate digital television displays on the buses of many major cities in China provides us with a competitive advantage and creates a barrier to entry for potential competitors for significant lengths of time.

***Long-term contractual arrangements with local television stations to establish our direct investment entities.*** We have entered into long-term contractual arrangements with local television stations in our direct investment cities to establish the direct investment entities together. These long-term contractual arrangements have a term of ten years or longer, and give us the right to use their broadcasting infrastructure and radio frequencies required for mobile digital television operations. We believe that the broad coverage of our network in many cities in China and our exclusive long-term arrangements with both the licensed mobile digital television companies and the bus companies create higher barriers to entry for potential competitors compared to other out-of-home advertising business models.

### ***Effective Advertising Solutions with Content***

Our mobile digital television advertising network provides an effective method for our advertising clients to reach a large audience with a relatively low CPM. Many cities in China face increasing traffic congestion and long daily average commute times. We believe that our network delivers substantial value to our advertising clients by reaching the targeted audience during a period of time when they remain in an enclosed environment with few other forms of entertainment to compete for their attention. We believe that our combination of providing advertising with entertaining content rather than merely advertising differentiates us from other out-of-home advertising networks in China.

Our direct investment operations with the local television stations in certain cities enable us to suggest unique content and programs to our direct investment entities. The programming on our network includes news and entertainment shows to capture the attention of commuters riding the mass transportation system on a daily basis. In addition, our ability to include programs on our network allows us to derive additional advertising revenues from sales of soft advertising embedded in the programs and sponsorships of the programs. As a result, we believe that our medium for advertising yields more effective results than other out-of-home advertising media and offers significant value for our advertising clients. Furthermore, our real-time broadcast platform offers more flexibility for our advertising clients to update content frequently compared to billboard advertising or out-of-home advertising networks that replay a fixed cycle of content repeatedly throughout the day. We believe that our mobile digital television advertising network offers the advantages of both traditional television and out-of-home advertising networks by capturing the attention of the audience with our real-time broadcasts of programming and by reaching the audience in the mass transportation system.

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 with an average duration of approximately three months. Our top three international and domestic brand name advertisers, Sanchine Pharmaceutical Co., Ltd., Nice Group Co., Ltd. and Coca-Cola Company, in aggregate accounted for approximately 32.0% of our advertising service revenues for the six months ended June 30, 2008.

### ***Strong Management and Sales Team with Extensive Experience***

We have an experienced management team. In particular, Limin Li, our founder, chairman, chief executive officer and a major shareholder, was one of the first private investors to enter into the mobile digital

---

## **Table of Contents**

television industry in China. Dina Liu, our chief financial officer, who previously worked as a partner at Ernst & Young Hua Ming, an international accounting firm, brings us her extensive experience with U.S. GAAP and internal controls. In addition, we have assembled a sales team of professionals with extensive industry experience in the advertising industry in China, including prior working experience with major domestic and international advertising firms in China. For example, Alfred Tong, our chief marketing officer, brings us extensive marketing experience and previously served in management roles in leading 4A advertising agencies including Universal McCann and Ogilvy & Mather. Xiaowei Chen, our chief strategy officer, brings us technical expertise and extensive industry experience. Since our inception in 2005, our management team has led the rapid growth of our company and successfully established our mobile digital television advertising network in a short span of time. We believe that the strength and experience of our management team have enabled us to rapidly expand our advertising network, enhance our reputation in the industry and build a strong client base.

### **Our Strategies**

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

#### ***Expand the Coverage and Penetration of Our National Network***

We intend to expand the coverage and penetration of our mobile digital television advertising network in order to create barriers to expansion and entry for current and prospective competitors. Additionally, we intend to enhance our network's critical mass appeal to our advertisers, and increase our fee rates and revenues.

***Strengthen our early mover advantage by expanding our network in existing cities.*** We plan to expand the reach of our mobile digital television advertising network by increasing the number of digital television displays in our network to reach a larger audience. For the mass transportation companies where we already have the display placement rights, we will continue to install our digital television displays on buses not previously equipped with our displays. We also intend to enter into new placement agreements with other bus companies to install our digital television displays in each of our exclusive agency cities and direct investment cities. We will strive to expand our network to provide a comprehensive coverage of the mass transportation systems in each of our cities.

***Expand into new cities through direct investment or exclusive agency agreements.*** We view the national reach of our network as a cornerstone of our competitive strength. We will seek to expand our network into new cities using either a direct investment model or an exclusive agency model. Our exclusive agency agreements with direct investment partners typically grant us the exclusive right to control all of the advertising time on a mobile digital television advertising network. If a local television station already has formed a mobile digital television company, we will try to sign an exclusive agency agreement with the existing company or purchase advertising time at the request of our clients. Regardless of which business model we use to expand our network, our goals are to expand our mobile digital television advertising network in order to expand our national coverage and to provide our advertising clients with a wider distribution network for their advertisements. We typically charge our advertising clients a fixed price for broadcasting an advertisement over our network in a particular city. We adjust our fee rates from time to time based on a number of factors, including the size of our network and the estimated audience reached in each city. Accordingly, we believe that expanding our network will lead to higher actual prices for our advertising time and, consequently, increased revenues. We recently increased our rate card on May 1, 2008 and July 1, 2008.

---

**Table of Contents**

***Maximize Our Average Revenues per Hour***

We track our performance by measuring the average revenues per hour for all of the cities of our mobile digital television advertising network, and we will implement the following measures to maximize our average revenues per hour:

***Attract national and international brand name advertisers to purchase our advertising time.*** We believe that our marketing efforts aimed at national and international brand name advertisers will help increase the utilization of our advertising time and provide us with higher revenues. Since each city broadcasts a unique mixture of advertising and content, we offer our advertising clients the ability to broadcast advertising content on our network in one city or any combination of the cities where we place advertisements. We will primarily focus our sales and marketing efforts on national and international brand names to provide one-stop advertising solutions for our advertisers to place their advertisements in various cities across China. We also intend to further penetrate the local advertising markets by appealing to local advertisers who typically utilize other types of advertising media in those cities.

***Deliver high quality programs that attract our audience.*** We will continue to provide suggestions to the local television stations to locate entertainment programs suitable for syndication and broadcasting on the local mobile digital television networks in the cities where we operate. The local television stations may also look in other international markets to locate original programs and edit the content to conform to applicable PRC laws and regulations governing content. 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 believe that improving the appeal of the programming on our network will help make our advertising platform more effective and help increase our average revenues per hour.

***Increase sales of soft advertising embedded in the programs and offer sponsorships of the programs.*** We intend to increase our efforts to offer programs that embed advertising, such as strategic product placements or infomercials. In addition, we may also derive revenues from selling sponsorships for each of the programs on our network. We believe these additional advertising opportunities will increase our average revenues per hour by expanding our advertising beyond the traditional time between programs.

***Continue to Pursue Exclusive Arrangements with Additional Mobile Digital Television Companies***

In order to create additional barriers to entry and expansion for our competitors, we will continue to secure exclusive agreements with the mobile digital television companies to control the advertising time available. We strive to establish exclusive agency agreements with all of the mobile digital television companies in our network. For the direct investment cities, we will attempt to enter into exclusive agency agreements with each direct investment entity after demand for advertising time on that network grows to a sufficient level. Our exclusive agency agreement with our direct investment entity in Wuxi became effective on October 1, 2007. Our exclusive agency arrangement in Wuxi that gives us the exclusive right to sell a portion of the advertising time on Wuxi's mobile digital television network does not include sales of advertising time to advertisers from Wuxi. We have also entered into exclusive agency agreements with our direct investment entities in Changchun, Chengdu, Dalian, Ningbo, Shenzhen and Wuhan. We will also selectively approach other mobile digital television companies in other cities outside of our network to sign exclusive agency agreements to provide additional geographic coverage for our advertising clients. We believe that these exclusive agreements will give us more control over advertising time in our network and help us to maintain barriers to entry for our current and future competitors.

## **Table of Contents**

### ***Continue to Explore New Digital Media Technologies and Techniques in Order to Enhance the Effectiveness of Our Network***

We will continue to explore new technologies and techniques to enhance the effectiveness of our advertising network. We have implemented scrolling information bars on the screen to display real-time news and stock quotes, sport scores, and other real-time information. The scrolling information bar will remain on the screen even during advertisements, which may help retain the attention of the viewers. Additionally, we will explore methods of mixing relevant programs together with certain advertisements in order to increase the effectiveness of the advertisement. For example, we may display financial-related advertisements after financial news programs and sports-related advertisements after sports news programs. We believe that these new technologies and techniques will enhance the effectiveness of our advertising network, which will increase demand for our advertising time, which we believe will lead to higher actual prices for our advertising time.

We also intend to implement other measures to make our advertising network more effective. We believe that providing content tailored to the local population will increase the overall interest in our programs and consequently make our advertising network more effective. The real-time broadcasting infrastructure allows us to provide information that we receive from the local television stations to our targeted audience, such as real-time news and stock quotes, weather and traffic updates, sports highlights, other entertainment programs and other content tailored to the local demand. We believe that expansion of our ability to provide localized information services coupled with our ability to distribute advertisements in multiple cities across China will create a unique platform for our advertising clients. We will continue to explore new methods to enhance the content on our mobile digital television advertising network and provide localized services for our audiences. Accordingly, we believe that new digital media opportunities to enhance our advertising network will increase demand for our advertising time, which we believe will lead to higher fee rates and increased revenues for us.

### ***Expand Our Network to Other Advertising Media Platforms***

We plan to expand our digital television advertising network to new media platforms such as personal mobile devices and additional in-building displays. The real-time broadcasts provide unique programs not currently available on most other out-of-home advertising networks. We believe that demand exists for the network's programs outside of the mass transportation systems. For example, we have the ability to deliver the broadcasts to personal handheld devices equipped with an LCD screen and a digital television receiver. We expect expanding to other advertising media platforms will increase the value of our network by increasing the size of the audience reached and increasing the exposure time for our advertising clients.

### ***Pursue Strategic Relationships and Acquisitions***

We intend to continue expanding the scope of our advertising activities and the type of media platforms we employ through strategic relationships and acquisitions. We will leverage our strong relationships with our client base to penetrate more diverse channels and platforms for advertising. We may consider entering into strategic relationships to expand the reach of our network by partnering with companies that offer other types of advertising media platforms, such as large-size outdoor LED digital billboards or in-store advertising networks. We may also consider acquiring companies that provide synergistic opportunities for our company to grow into a leading multi-platform advertising company in China. We intend to continue expanding into new and complementary advertising media platforms through strategic relationships and acquisitions in order to provide our clients with additional out-of-home advertising platforms to reach a larger target audience.

**Table of Contents****Our Advertising Network**

The following map and tables illustrate the geographic scope of our mobile digital television advertising network and stationary advertising platform as of the date of this prospectus:

<b>Our Mobile Digital Television Advertising Network Cities</b>	<b>Exclusive Agency</b>	<b>Direct Investment</b>
Beijing	ü	
Changchun	ü	ü
Changzhou		ü
Chengdu	ü	ü
Dalian	ü	ü
Guangzhou	ü	
Harbin		ü
Nanjing	ü	
Ningbo	ü	ü
Shenyang	ü	
Shenzhen	ü	ü
Suzhou		ü
Taiyuan	ü	
Wuhan	ü	ü
Wuxi <sup>(1)</sup>	ü	ü
Zhengzhou		ü

- (1) Our exclusive agency arrangement in Wuxi that gives us the exclusive right to sell a portion of the advertising time on Wuxi's mobile digital television network does not include sales of advertising time to advertisers from Wuxi.

**Table of Contents**

**Our Stationary Advertising Platform Cities**

Guangzhou<sup>(1)</sup>

Shanghai

Shenzhen

(1) Our exclusive agency arrangement with respect to the digital displays on the subway platforms and in the subway trains in Guangzhou does not include sales of advertising time to advertisers from Guangzhou. However, we have full exclusivity with respect to the five large digital displays located in the subways stations in Guangzhou.

Our mobile digital television advertising network and stationary advertising platform include digital displays installed in the mass transportation systems in 16 cities around China as of June 30, 2008. These digital television displays receive real-time programs broadcast by the local television stations on the mobile digital television frequencies. As of June 30, 2008, our mobile digital television advertising network and stationary advertising platform consisted of approximately 60,160 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 Mobile Digital Television Advertising Network***

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

***Our Exclusive Agency Cities***

As of June 30, 2008, we operated our mobile digital television advertising network under the exclusive agency model in 12 cities: Beijing, Changchun, Chengdu, Dalian, Guangzhou, Nanjing, Ningbo, Shenyang, Shenzhen, Taiyuan, Wuhan and Wuxi. Our mobile digital television advertising network operating under the exclusive agency model in Beijing, Guangzhou and Shenzhen in aggregate accounted for approximately 65.9% of our advertising service revenues for the six months ended June 30, 2008. We entered into exclusive agency agreements with Beijing Beiguang Media Mobile Television Co., Ltd. on October 13, 2006 for a term of 10 years and Shenzhen Mobile Television Co., Ltd. on December 31, 2006 for a term of four years and seven months. On August 31, 2007, we also entered into an exclusive agency agreement with the exclusive operator of the mobile digital television network on Beijing's subway system to place our advertisements on the digital television displays located on the subway trains in Beijing. This agreement will expire on December 31, 2008. These digital television displays receive the mobile digital television broadcasts and constitute part of our network in Beijing. Our exclusive agency arrangement in Wuxi that gives us the exclusive right to sell a portion of the advertising time on Wuxi's mobile digital television network does not include sales of advertising time to advertisers from Wuxi. Under our exclusive agency model, we enter into an exclusive agreement with the local mobile digital television company to become the exclusive advertising agent for that network. According to the terms of the exclusive agency agreements:

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

We have the responsibility to invest in new digital television displays and install the displays in new buses in all cities except for Chengdu, Ningbo and Wuxi.

---

**Table of Contents**

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

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

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

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

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

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

***Our Direct Investment Cities***

As of June 30, 2008, we operated our mobile digital television advertising network under the direct investment model in 11 cities: Changchun, Changzhou, Chengdu, Dalian, Harbin, Ningbo, Shenzhen, Suzhou, Wuhan, Wuxi and Zhengzhou. Besides the primary installations of digital television displays on buses, we also have displays installed in buildings that receive digital television broadcasts from our mobile digital television advertising network in Harbin, Wuhan and Wuxi. Under our direct investment model, we form an operating company together with the local television station authorized to operate the digital television network in that city. Due to regulatory considerations, we typically own 49% of the direct investment entity and our partner owns the other 51%, but in Shenzhen and Wuxi we own 25% and 14%, respectively. Under these direct investment agreements:

We nominate the general manager, for appointment by the board of directors, of most of the direct investment entities.

We train the locally recruited sales force.

## **Table of Contents**

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 ten to 50 years. The direct investment model also allows us to be involved in the process of determining the mixture of entertainment programs and advertising content broadcast on that network. In addition, the direct investment model allows us to expand into new media platforms in the future using mobile digital television broadcasting technology.

We have entered into an exclusive agency agreement with our direct investment entity in Changchun, Chengdu, Dalian, Ningbo, Shenzhen and Wuhan to control all of the advertising time on the mobile digital television network operated by such entity in that city. Our exclusive agency arrangement with our direct investment entity in Wuxi that gives us the exclusive right to sell a portion of the advertising time on Wuxi's mobile digital television network does not include sales of advertising time to advertisers from Wuxi. These exclusive agency agreements grant us the exclusive right to sell the advertising time on the direct investment network typically for a term ranging from four years to 12 years. Under these arrangements, we realize all of the advertising revenues and pay a pre-determined network rental fee to the direct investment entity. Under this type of contract, the direct investment entity effectively transfers the operational risk to us and enjoys a guaranteed stream of revenues.

### ***Our Outreach Agency Cities***

We extend our geographic reach outside of our network by purchasing advertising time on mobile digital television networks 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.

### ***Our Stationary Advertising Platform***

While the vast majority of our advertising network consists of digital television displays that receive mobile digital television broadcasts, we also operate a separate stationary advertising platform in the subway stations in Guangzhou, Shanghai (since July 1, 2008) and Shenzhen to supplement and extend the reach of our network. Our stationary advertising platform operates independently from our mobile digital television network. In particular, the digital television displays located in the Beijing subway trains receive mobile digital television broadcasts and constitute part of our mobile digital television network instead of our stationary advertising platform. We commenced operations of our stationary advertising platform in May 2007. As of June 30, 2008 we



**Table of Contents**

have expanded the stationary advertising platform to 2,908 digital displays. In Guangzhou, some of the digital displays are located in the subway trains but these displays do not receive mobile digital television broadcasts and use the same technology as the digital displays located in the subway stations and on subway platforms. For our stationary advertising platform, we enter into agreements directly with the subway company to rent the digital displays that display advertising and content. Our stationary advertising platform also displays useful real-time information provided by the subway company such as the arrival information for the next train.

**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. As of June 30, 2008, more than 590 advertisers have purchased advertising time on our mobile digital television advertising network or our stationary advertising platform either directly or through an agent. 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 June 30, 2008, we have placed advertisements in 28 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 with an average duration of approximately three months. Our top three international and domestic brand name advertisers, Sanchine Pharmaceutical Co., Ltd., Nice Group Co., Ltd. and Coca-Cola Company, in aggregate accounted for approximately 32.0% of our advertising service revenues for the six months ended June 30, 2008. 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 six months ended June 30, 2008:

<b>Industry</b>	<b>% of total advertising service revenues</b>
Household Products	24%
Pharmaceutical and Nutritional Supplements	24%
Food, Beverage, Restaurants, Wines and Spirits	16%
Electronics and Digital Products	15%
Fashion and Accessories	3%
Financial Services	3%
Others	15%

***Sales and Marketing***

As of June 30, 2008, we employed an experienced advertising sales force of 276 employees. We also engaged consultants to assist our marketing efforts. In addition to our direct sales force, we also sell our advertising time through third party advertising agencies such as the 4A agencies. We provide in-house education and training to our sales force to ensure that they provide our current and prospective clients with comprehensive information about our services, the advantages of using our mobile digital television advertising network as a marketing channel and relevant information regarding the advertising industry as a whole. We organize our sales force into teams to provide specialized coverage for geographic regions. We believe that our regional coverage teams provide quality service for our advertisers and allow our sales and marketing teams to focus on building close relationships and staying abreast of regional market trends. We also market our advertising services from time to time by placing advertisements on our own network.

We believe our advertisers derive substantial value from our ability to provide advertising services targeted at specific segments of consumer markets. Since market research is an important part of evaluating the effectiveness and value of our business to advertisers, we routinely provide market research reports to our clients as part of our marketing efforts. We conduct market research, consumer surveys, demographic analysis and other advertising industry research for internal use to evaluate new and existing advertising channels. We also purchase

## **Table of Contents**

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 stationary 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 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.

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

### **Relationships with Location Providers**

We or our direct investment entities install the digital television displays on the buses of the mass transportation system. Therefore, establishing and maintaining long-term relationships with the local mass

## **Table of Contents**

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 of Beijing, Nanjing, Shenyang, Shenzhen and Taiyuan, the local mobile digital television company negotiates directly with the bus companies for a placement agreement to secure the right to install digital television displays and then exclusively assigns that right to us. In our exclusive agency cities that are also our direct investment cities, the direct investment entity usually negotiates directly with the bus companies or other location providers for a placement agreement to secure the right to install and operate the digital television displays. On August 31, 2007, we also entered into an exclusive agreement with the exclusive operator of the mobile digital television network on Beijing's subway system to place advertisements on the digital television displays located in the subway trains in Beijing. These digital television displays receive the mobile digital television broadcasts and constitute part of our network in Beijing. In Guangzhou, our local affiliate has entered into agreements directly with two bus companies to install and operate the mobile digital television displays.

### ***Our Direct Investment Cities***

In most of 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.

### ***Our Stationary Advertising Platform***

For our stationary advertising platform in Guangzhou, Shanghai and Shenzhen, we directly negotiate with the subway companies to rent the digital displays located in the subway stations, subway trains or on the subway platforms.

## **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 stationary advertising platform located in the subway station in Guangzhou and Shenzhen also uses digital displays, and we transmit the advertisements and information from the subway company from the broadcast center digitally, through a local area network, to the display.

## **Suppliers**

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

Our primary supplier of LCD screens, Xiamen Overseas Chinese Electronic Co., Ltd., or Prima, also purchases advertising time on our network and was our second largest customer in 2006 and remains a customer in 2007. None of our transactions with Prima was performed through barter transactions, and we believe that all of our contracts with Prima have been negotiated at arm's length for fair market value.

---

## **Table of Contents**

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

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

We face barriers-to-entry in the mobile digital television advertising industry as a result of competition. Many smaller mobile digital television companies operate in cities outside of our network pursuant to exclusive agreements, and we expect to encounter barriers-to-entry as we attempt to expand our network into these cities. For example, in Shanghai, Shanghai Oriental Pearl Mobile Television Inc. operates the largest mobile digital television advertising network using broadcasting technology. As a result, we face barriers-to-entry to expand our network to 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.

### **Employees**

As of December 31, 2007 and June 30, 2008, we had 216 and 437 full-time employees, respectively. As of June 30, 2008, we had 60 employees in management and administration, 276 in sales and marketing and 101 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\$582 for the period from April 8, 2005 (date of inception) to December 31, 2005, US\$13,071 for the year ended December 31, 2006 and US\$53,387 for the year ended December 31, 2007.

### **Facilities**

Our principal executive offices are located at our headquarters comprising approximately 920 square meters in Shenzhen, China. We also maintain offices in other cities in China. We lease all of our facilities and do

## **Table of Contents**

not own any real property. We lease some of our facilities from related parties, see Related Party Transactions Transactions with Companies Under Common Control with Us Lease and Loan with Meidi Zhiye. We believe that our leased facilities are adequate to meet our needs for the foreseeable future, and we believe that we will be able to obtain adequate facilities, principally through leasing of additional properties, to accommodate our future expansion plans.

### **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.

### **Legal and Administrative Proceedings**

In February 2008, Xiamen Towona Culture Media Co., Ltd., or Xiamen Towona, filed a claim against Shanxi Mobile TV Co., Ltd., or Shanxi Mobile TV in the Taiyuan Intermediate People's Court, or the Taiyuan Court, and CDMTV was joined as a third party defendant. In the complaint, Xiamen Towona alleged that Shanxi Mobile TV terminated the exclusive agency agreement in Taiyuan with Xiamen Towona without justification. Xiamen Towona sought specific performance of the agreement and monetary damages in the amount of RMB8.0 million. Since the legal proceeding is still in a preliminary stage, we cannot assess the probable outcome of the litigation. If the Taiyuan Court rules against Shanxi Mobile TV, we may be forced to discontinue our operations in Taiyuan, and we may have a right to claim for equitable or legal remedies against Shanxi Mobile TV.

In July 2008, Xiamen Towona and Guangzhou Towona Mobile Digital Advertisement Media Co., Ltd., or Guangzhou Towona, jointly filed a claim against Guangzhou Third Bus Company and CDMTV in the Yuexiu District People's Court in Guangzhou, or the Yuexiu Court. In the complaint, Xiamen Towona and Guangzhou Towona alleged that Guangzhou Third Bus Company and CDMTV removed digital television displays installed by Xiamen Towona and Guangzhou Towona and replaced them with displays bearing our logo. Xiamen Towona and Guangzhou Towona requested equitable relief from the Yuexiu Court to restore their digital television displays. Since the legal proceeding is still in a preliminary stage, we cannot assess the outcome of the litigation.

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.

**Table of Contents**

**REGULATION**

The PRC government imposes extensive controls and regulations over the media industry, including on television, radio, newspapers, magazines, advertising, media content production, and the market research industry. This section sets forth a summary of the most significant regulations or requirements that affect our business activities in China or our shareholders' right to receive dividends and other distributions from us.

**Regulations on the Television Industry**

*Television content*

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

*Foreign investment in television operations*

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

We operate our business through our contractual arrangements with CDMTV, which is a PRC company. CDMTV in turn relies on its 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.

## **Table of Contents**

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

### ***Mobile digital television***

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

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

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

no foreign investment in mobile digital television operations is permitted;

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

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

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

The National Standard of Frame Structure and Channel Code and Modulation of Digital Television Ground Broadcasting Transmission System was approved by the Standardization Administration of the PRC on August 18, 2006, and became effective on August 1, 2007. See Risk Factors. 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 conditions and results of operations would be materially and adversely affected and 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 comply with the newly adopted PRC national standards for mobile digital television operations. If and when our local mobile digital television operating partners and our direct investment entities are required to comply with the National Standards, we may spend significant capital and other resources.

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



## **Table of Contents**

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

### **Regulations on the Advertising Industry**

#### ***Foreign investments in advertising***

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

We are a Cayman Islands corporation and a foreign legal person under PRC laws and we have not directly operated any advertising business outside of China. Therefore, we do not qualify under PRC regulations to directly provide advertising services. Accordingly, our subsidiary, CDTC, is ineligible to apply for the required licenses for providing advertising services in China. Our advertising business is operated by our consolidated affiliated entity in China, CDMTV. CDMTV is currently owned by Limin Li and Yanqing Liang and holds the requisite licenses to provide advertising services in China. CDMTV directly operates our advertising network, enters into direct investment agreements and exclusive and non-exclusive advertising agency agreements with our local operating partners, and sells advertising time to our advertising clients. We have been, and are expected to continue to be, dependent on CDMTV and its subsidiaries to operate our advertising business. We do not have any equity interest in CDMTV but we receive the economic benefits of it through various contractual arrangements. See Our Corporate Structure.

#### ***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

## **Table of Contents**

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.

### ***Operational matters of the advertising business***

Under the Advertising Law promulgated by the National People's Congress on October 27, 1994, registration, review and filing systems need to be established and maintained for the operation of entities engaged in the advertising business. Advertising fees must be reasonable and rates and fee collection methods must be filed with the PRC Commodity Price Administration and the SAIC for records. Under the Implementation Rule of Advertising Industry Administration, or the Implementation Rule, promulgated by the SAIC, as amended, the advertising agent fee shall not be more than 15% of the advertising fees. The advertising customer must provide relevant documents, including certificates rendered by relevant supervisory administrations before we can deliver or place its advertisements.

We and our affiliates take steps to make sure that, collectively, all of our advertisements comply with applicable laws, rules and regulations. All of the advertisements placed on our network are subject to the review and approval of our local operating partners through whom we broadcast the advertisement. Our business partners employ qualified advertising inspectors who are trained to review advertising content for compliance with relevant laws and regulations. We do not believe that advertisements containing content subject to restriction or censorship comprise a material portion of the advertisements in our business. In the event that any of the advertisements our advertising customers or agencies provide to us or our affiliated entities, and which we or our affiliated entities include in advertising, are not in compliance with relevant PRC advertising laws, rules and regulations, or when these advertisements have not received required approvals or do not comply with content requirements, we will remove the advertisements or advise our business partners to remove the advertisements as soon as we notice such violations.

SARFT promulgated the Interim Measures of Administration of Advertisement Broadcasting of Radio and Television in 2003 that became effective on January 1, 2004. This regulation is applicable to advertisement broadcasting operations of all radio and television stations and channels. This regulation contains a number of restrictions, including that the total advertising time of a radio or television station or channel shall not be greater than 20% of its total broadcasting time each day. Our PRC counsel has advised us that the provisions of this regulation restricting advertising time are only applicable to traditional radio and television broadcasting and that as of the date hereof SARFT has not indicated that this regulation shall apply to mobile digital television. Therefore, we believe that this regulation is not applicable to the mobile digital television industry. See Risk Factors. If SARFT determines that the regulations on radio and television advertising operation applicable to advertising mobile digital television or establishes similar regulations for mobile digital television, our business and prospects could be harmed.

### **Regulations on Foreign Currency Exchange**

#### ***Foreign currency exchange***

Pursuant to the Foreign Currency Administration Rules promulgated on January 29, 1996 and amended on January 14, 1997, 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. Capital account items, such as direct equity investments, loans and repatriation

---

**Table of Contents**

of investment, 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. Unless otherwise approved, PRC companies must repatriate foreign currency payments received from abroad. 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. Unless otherwise approved, domestic enterprises must convert all of their foreign currency receipts into RMB.

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

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

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

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

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

**Dividend distribution**

The principal laws, rules and regulations governing dividends paid by PRC operating subsidiaries include the Company Law of the PRC (1993), as amended in 2006, the Wholly Foreign Owned Enterprise Law (1986), as amended in 2000, and the Wholly Foreign Owned Enterprise Law Implementation Rules (1990), as amended in 2001. Under these laws and regulations, PRC subsidiaries, including wholly foreign owned enterprises, or WFOEs, and domestic companies in China, may pay dividends only out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, PRC subsidiaries and consolidated affiliates, including WFOEs and domestic companies, are required to set aside at

**Table of Contents**

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.

**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 was enacted on March 16, 2007 and 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 EIT rate of CDTC is 18%, 20%, 22%, 24% and 25% in the year of 2008, 2009, 2010, 2011 and 2012, respectively, and the EIT rate of CDMTV is 0%, 20%, 22%, 24% and 25% in the year of 2008, 2009, 2010, 2011 and 2012, respectively. Preferential tax treatments may continue to be granted to industries and projects that are strongly supported and encouraged by the State, and enterprises classified as new and high technology enterprises strongly supported by the State are entitled to a 15% enterprise income tax rate.

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.

## **Table of Contents**

We are in the process of evaluating the impact of the EIT Law on our results of operations for 2008 and beyond. Any significant income tax expenses may have a material adverse effect on our net income in 2008 and beyond. Reduction or elimination of the financial subsidies or preferential tax treatments we currently enjoy or imposition of additional taxes on us or our subsidiary in China may significantly increase our income tax expense and materially reduce our net income.

### **Provisions Regarding Mergers and Acquisitions of Domestic Enterprises by Foreign Investors**

On August 8, 2006, six PRC regulatory agencies, including the CSRC, promulgated a rule entitled Provisions Regarding Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, or the new M&A rule, to regulate foreign investment in PRC domestic enterprises. The new M&A rule provides that the Ministry of Commerce must be notified in advance of any change-of-control transaction in which a foreign investor takes control of a PRC domestic enterprise and any of the following situations exist: (i) the transaction involves an important industry in China; (ii) the transaction may affect national economic security; or (iii) the PRC domestic enterprise has a well-known trademark or historical Chinese trade name in China. The new M&A rule also contains a provision requiring overseas SPVs, formed for listing purposes through acquisitions of PRC domestic companies and controlled by PRC individuals, to obtain the approval of the CSRC prior to publicly listing their securities on an overseas stock exchange. On September 21, 2006, the CSRC issued a clarification that sets forth the criteria and process for obtaining any required approval from the CSRC.

To date, the application of this new M&A rule is unclear. Our PRC counsel, Grandall Legal Group, has advised us that:

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

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

**Table of Contents****MANAGEMENT****Executive Officers and Directors**

The following table sets forth information regarding our executive officers and directors as of the date of this prospectus.

<b>Name</b>	<b>Age</b>	<b>Position/ Title</b>
Limin Li	47	Chairman of the Board of Directors, Chief Executive Officer
Dina Liu	37	Chief Financial Officer
Alfred Tong	43	Chief Marketing Officer
Xiaowei Chen	37	Chief Strategy Officer
Yi Zhang	33	Chief Administrative Officer
Haijun Liu	43	Chief Development Officer
Yanqing Liang	36	Director
William Decker	62	Independent Director
Xisong Tan	60	Independent Director
Yunli Lou	40	Director

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

*Dina Liu* has been our chief financial officer since June 2007. Prior to joining our company in June 2007, Ms. Dina Liu worked at Ernst & Young, where she became partner of the firm on January 1, 2007. While at Ernst & Young's Beijing office from 2001 to 2007, Ms. Dina Liu worked in the technology, communication and entertainment industry group providing services relating to cross-border transactions and Sarbanes-Oxley Act Section 404 compliance as well as other accounting and audit services to clients seeking access to U.S. capital markets. In addition, prior to 2001, Ms. Dina Liu worked at the San Jose and Toronto offices of Ernst & Young. Ms. Dina Liu received a master of business administration degree from the University of Toronto in 1997 and is a member of the Canadian Institute of Chartered Accountants.

*Alfred Tong* has been our chief marketing officer since February 2008. From 2005 to February 2008, Mr. Tong served as the marketing director leading media and marketing operations in China for PepsiCo International. In 2004, he was a vice president of Universal McCann. From 2001 to 2003, Mr. Tong was the general manager of Leader Advertising in Shanghai. Prior to joining Leader Advertising, Mr. Tong held a series of positions at BBDO, Ogilvy & Mather and MindShare Shanghai. Mr. Tong received a bachelor's degree in communication in advertising and marketing from Hong Kong Polytechnic College.

*Xiaowei Chen* has been our chief strategy officer since August 2006. Mr. Chen has worked for our company since our inception in 2005. He was general manager of Jiangsu Yinhe Operation Management Co., Ltd. from November 2002 to December 2004. He was the executive vice general manager of Xiamen ABBA Group Ltd. from 1997 to 1999. He was general manager of a subsidiary of Xiamen Xindeco Ltd., a company listed in China, from 1993 to 1997. Mr. Chen received a bachelor's degree in control science from Xiamen University.

*Yi Zhang* has been our chief administrative officer since June 2007 and was our chief investment officer from January 2006 to June 2007. From 2004 to 2005, Ms. Zhang was the vice president of Shenzhen Champs

---

## **Table of Contents**

Elysees Venture Capital Management Co., Ltd. From 2002 to 2004, she was a senior manager of Shenzhen Development Bank Co., Ltd. Ms. Zhang received a master's degree in European studies from University of Macau, a master's degree in world economics from Wuhan University and a bachelor's degree in economics from Wuhan University.

*Haijun Liu* has been our vice president since July 2006 and has been general manager of Beijing Beiguang Media Mobile Television Advertising Co., Ltd., a wholly-owned subsidiary of our company, since October 2006. 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.

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

*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 4A Advertising Association. She received a bachelor's degree from the Party School of the Central Communist Party Commission.

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

The business address for all of our executive officers and directors, except Yunli Lou, is 1/F Block No. 7, Champs Elysees, Nongyuan Road, Futian District, Shenzhen 518040, the People's Republic of China. Yunli Lou uses her business addresses disclosed in Principal and Selling Shareholders.

## **Employment Agreements**

We have entered into employment agreements with each of our executive officers. We may terminate an executive officer's employment for cause, at any time, without notice or remuneration, for certain acts of the

---

## **Table of Contents**

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. An 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 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 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.

### **Indemnification Agreements**

We have entered into indemnification agreements with each of our directors. Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers or persons controlling us pursuant to the indemnification agreement, we have been informed that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

### **Board of Directors**

Our board of directors currently consists of five directors. A director is not required to hold any shares in our company by way of qualification. A director may vote with respect to any contract, proposed contract or arrangement in which he or she is materially interested. A director may exercise all the powers of our company to borrow money, mortgage its undertaking, property and uncalled capital, and issue debentures or other securities whenever money is borrowed or as security for any obligation of our company or of any third party.

### **Committees of the Board of Directors**

#### ***Audit Committee***

Our audit committee consists of William Decker, Xisong Tan and Yunli Lou. Our board of directors has determined that each of William Decker and Xisong Tan satisfies the independence requirements of Rule 10A-3 under the Securities Exchange Act of 1934, as amended, and Rule 4350 of the Nasdaq Marketplace Rules. Mr. Decker is the chairman of our audit committee and meets the criteria of an audit committee financial expert as set forth under the applicable rules of the SEC. Our audit committee oversees our accounting and financial reporting processes and the audits of the financial statements of our company. The audit committee is responsible for, among other things:

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

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

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

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

## **Table of Contents**

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

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

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

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

reporting regularly to the full board of directors.

### ***Compensation Committee***

Our compensation committee consists of William Decker, Limin Li and Xisong Tan. Our board of directors has determined that each of William Decker and Xisong Tan satisfies the independence requirements of Rule 4350 of the Nasdaq Marketplace Rules. Our compensation committee assists the board in reviewing and approving the compensation structure, including all forms of compensation, relating to our directors and executive officers. Our chief executive officer may not be present at any committee meeting during which his compensation is deliberated. The compensation committee is responsible for, among other things:

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

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

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

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

### ***Corporate Governance and Nominating Committee***

Our corporate governance and nominating committee consists of William Decker, Limin Li and Xisong Tan. Our board of directors has determined that each of William Decker and Xisong Tan satisfies the independence requirements of Rule 4350 of the Nasdaq Marketplace Rules. Our corporate governance and nominating committee assists the board of directors in selecting individuals qualified to become our directors and in determining the composition of the board and its committees. The corporate governance and nominating committee is responsible for, among other things:

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

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

## Edgar Filing: VISIONCHINA MEDIA INC. - Form F-1

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

---

## **Table of Contents**

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

### **Duties of Directors**

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

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, without cause or by ordinary resolution, with cause. 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.

### **Appointment of Directors by Certain Shareholders**

Under the terms of the amended and restated shareholders agreement, dated March 9, 2007, among holders of our preferred shares, holders of our common shares and our company: (a) the OZ Funds are entitled to (i) appoint one voting member of our board of directors so long as the OZ Funds continue to hold no less than 10% of the then outstanding equity securities of our company and (ii) appoint a representative to attend all meetings of our board of directors and its committees in a non-voting, observer capacity for so long as the OZ Funds holds any equity security of our company, (b) a majority in interest of our Series B preferred share investors are entitled to appoint one voting member of our board of directors so long as the Series B preferred share investors continue to hold no less than 10% of the then outstanding equity securities of our company, (c) Milestone I, Milestone II, Milestone III and Milestone IV, collectively, are entitled to appoint a representative to attend all meetings of our board of directors and its committees in a non-voting, observer capacity for so long as they collectively, hold any equity security of our company, and (d) GSPS is entitled to appoint a representative to attend all meetings of our board of directors and its committees in a non-voting, observer capacity for so long as GSPS hold any equity security of our company. Although all of our Series A and Series B preferred shares were automatically converted to common shares upon the closing of our initial public offering, the OZ Funds and our Series B preferred share investors, as holders of our common shares, continue to be entitled to the rights described above. The amended and restated shareholders agreement remained in effect after the closing of our



## **Table of Contents**

initial public offering except certain of its provisions that explicitly expired upon the closing of the initial public offering. The amended and restated shareholders agreement has been furnished as an exhibit to the registration statement that includes this prospectus.

### **Compensation of Directors and Executive Officers**

In 2007, the aggregate cash compensation to our executive officers, including all the directors, was US\$0.4 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 7,000,000 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.

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

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

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

**Table of Contents**

Our board of directors has only granted options to participants in our 2006 share incentive plan. As of June 30, 2008, there were 4,775,216 common shares issuable upon the exercise of outstanding share options at a weighted average exercise price of US\$4.74 per share, and there were 665,390 common shares available for future issuance upon the exercise of future grants under our 2006 share incentive plan. The following table summarizes, as of June 30, 2008, the options granted to our directors and executive officers and other individuals as a group, without giving effect to options that were exercised or terminated:

Name	Ordinary Shares	Exercise Price	Grant Date	Expiration Date
	Underlying Outstanding Options or restricted Shares	Underlying Outstanding Options (\$/Share)		
Limin Li <sup>(1)</sup>	350,000	6.545	August 30, 2007	August 30, 2017
Dina Liu <sup>(2)</sup>	726,739	1.90	April 6, 2007	April 6, 2017
Alfred Tong <sup>(3)</sup>	*	10.30	March 14, 2008	March 14, 2018
Xiaowei Chen <sup>(4)</sup>	*	0.60	December 8, 2006	December 8, 2016
Yi Zhang <sup>(4)</sup>	*	0.60	December 8, 2006	December 8, 2016
Haijun Liu <sup>(4)</sup>	*	1.00	December 8, 2006	December 8, 2016
William Decker	*	6.545	October 31, 2007	October 31, 2017
Xisong Tan	*	1.00	December 8, 2006	December 8, 2016
Other individuals as group	2,923,477	1.00-18.00	<sup>(5)</sup>	<sup>(6)</sup>

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

- (1) Represents options to purchase 350,000 common shares granted to Front Lead Investments Limited, a British Virgin Island company. Malte International Holding Limited is the sole shareholder and sole director of Front Lead Investments Limited. The Li Liu Family Trust is the sole shareholder of Malte International Holding Limited. HSBC International Trustee Limited is trustee of the Li Liu Family Trust and Limin Li and his family are beneficiaries of the Li Liu Family Trust.
- (2) Represents options to purchase 726,739 common shares granted to Barrie Holdings Limited, a British Virgin Island company whose sole shareholder and director is Dina Liu.
- (3) Represents 33.3% restricted shares and 66.7% options to purchase common shares with exercise price US\$10.30 granted to Universal Harmony Investment Limited, a British Virgin Island company whose sole shareholder and director is Alfred Tong.
- (4) Includes options held by a British Virgin Islands company in which the relevant individual is the sole shareholder and sole director.
- (5) Options were granted to other individuals on various dates.
- (6) Other individuals options expire on various dates.

**Table of Contents****PRINCIPAL AND SELLING SHAREHOLDERS**

The following table sets forth information with respect to the beneficial ownership, within the meaning of Rule 13d-3 under the Exchange Act, of our common shares, as of the date of this prospectus, as adjusted to reflect the sale of the ADSs offered in this offering, by:

each of our directors and executive officers;

each person known to us to own beneficially more than 5% of our common shares; and

each selling shareholder participating in this offering.

The calculations in the table below assume there are 70,290,633 common shares outstanding as of the date of this prospectus and common shares outstanding immediately after the closing of this offering, assuming the underwriters do not exercise their option to purchase additional ADSs. Beneficial ownership is determined in accordance with the rules and regulations of the SEC. In computing the number of shares beneficially owned by a person and the percentage ownership of that person, we have included shares that the person has the right to acquire within 60 days of this offering, including through the exercise of any option, warrant or other right or the conversion of any other security. These shares, however, are not included in the computation of the percentage ownership of any other person.

	Common Shares Beneficially Owned Prior to This Offering		Common Shares Being Sold in This Offering	Common Shares Beneficially Owned After This Offering without Exercise of Over-Allotment Option		Common Shares Beneficially Owned After This Offering with Full Exercise of Over-Allotment Option		
	Number	%		Number	Number	%	Number	%
<b>Directors and Executive Officers:</b>								
Limin Li <sup>(1)</sup>	15,531,251	22.1	815,726	14,715,525	20.6	14,182,851	19.8	
Yanqing Liang <sup>(2)</sup>	6,600,000	9.4	1,102,661	5,497,339	7.7	5,251,601	7.4	
Yunli Lou <sup>(3)</sup>	8,050,090	11.5	1,229,200	6,820,890	9.6	6,820,890	9.5	
Dina Liu	*	*		*	*	*	*	
Alfred Tong	*	*		*	*	*	*	
Yi Zhang	*	*		*	*	*	*	
Xiaowei Chen	*	*		*	*	*	*	
Haijun Liu	*	*		*	*	*	*	
William Decker	*	*		*	*	*	*	
Xisong Tan	*	*		*	*	*	*	
All directors and executive officers as a group <sup>(4)</sup>	31,419,475	43.8	3,147,587	28,271,888	38.9	27,493,476	37.8	
<b>Principal and Selling Shareholders:</b>								
Front Lead Investments Limited <sup>(5)</sup>	15,531,251	22.1	815,726	14,715,525	20.6	14,182,851	19.8	
The OZ Funds <sup>(6)</sup>	13,219,708	18.8	2,208,614	11,011,094	15.4	10,827,043	15.2	
Milestone I, II and III <sup>(7)</sup>	6,708,408	9.5	1,024,300	5,684,108	8.0	5,684,108	8.0	
Milestone IV <sup>(8)</sup>	1,341,682	1.9	204,900	1,136,782	1.6	1,136,782	1.6	
Massive Sheen Investments Limited <sup>(9)</sup>	6,600,000	9.4	1,102,661	5,497,339	7.7	5,251,601	7.4	
IPROP Holdings Limited <sup>(10)</sup>	4,472,272	6.4	747,181	3,725,091	5.2	3,712,272	5.2	
GSPS Asia Limited <sup>(11)</sup>	5,366,726	7.6	896,618	4,470,108	6.3	4,395,390	6.2	
Columbia Wanger Asset Management, L.P. <sup>(12)</sup>	5,242,328	7.5		5,242,328	7.4	5,242,328	7.3	

Edgar Filing: VISIONCHINA MEDIA INC. - Form F-1

- \* Upon exercise of all options granted, would beneficially own less than 1.0% of our outstanding common shares.
- (1) Includes 15,400,000 common shares owned by Front Lead Investments Limited and 131,251 common shares issuable upon the exercise of options granted to Front Lead Investments Limited that are exercisable

**Table of Contents**

- within 60 days of the date of this prospectus. Malte International Holdings Limited is the sole shareholder and sole director of Front Lead Investments Limited. The Li Liu Family Trust is the sole shareholder of Malte International Holders Limited. HSBC International Trustee Limited is the trustee of the Li Liu Family Trust and Limin Li and his family 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.
- (2) Includes 6,600,000 common shares owned by Massive Sheen Investments Limited. 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.
  - (3) Includes 8,050,090 common shares held by Milestone I, Milestone II, Milestone III and Milestone IV. Yunli Lou, a managing director of Milestone Capital Partners Limited, disclaims beneficial ownership of shares held by Milestone I, Milestone II, Milestone III and Milestone IV except to the extent of her pecuniary interest in these shares.
  - (4) Include common shares held by all of our directors and executive officers as a group and common share issuable upon the exercise of all of the options that are exercisable within 60 days of the date of this prospectus held by all of our directors and executive officers.
  - (5) Malte International Holdings Limited is the sole shareholder and sole director of Front Lead Investments Limited. The Li Liu Family Trust is the sole shareholder of Malte International Holders Limited. HSBC International Trustee Limited is the trustee of the Li Liu Family Trust and Limin Li and his family 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.
  - (6) Includes a total of 13,219,708 common shares held by (i) OZ Master Fund, Ltd., a limited liability company incorporated in the Cayman Islands, (ii) OZ Asia Master Fund, Ltd., a limited liability company incorporated in the Cayman Islands and (iii) OZ Global Special Investments Master Fund, L.P., a limited partnership organized under the laws of the Cayman Islands. Each of the OZ Funds uses the mailing address: c/o Goldman Sachs (Cayman) Trust Limited, P.O. Box 896, Harbour Centre, Georgetown, Grand Cayman, Cayman Islands. OZ Management, LP is the investment manager of OZ Master Fund, Ltd. and OZ Asia Master Fund, Ltd. OZ Advisors, LP is the general partner of OZ Global Special Investments Master Fund, L.P. Och-Ziff GP, LLC is the general partner of OZ Management LP and OZ Advisors LP. Daniel S. Och, as senior managing member of Och-Ziff GP, LLC, may be deemed to have investment and/or voting control of the shares held by the OZ Funds.
  - (7) Includes 6,708,408 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 Milestone Capital Partners 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.
  - (8) Includes 1,341,682 common shares held by Milestone Mobile TV Media Holdings IV Limited, a limited liability company organized under the laws of the British Virgin Islands. Milestone Mobile TV Media Holdings IV Limited's mailing address is P.O. Box 957, Offshore Incorporation Centre, Road Town, Tortola, British Virgin Islands. The controlling shareholder of Milestone IV is MMT Investments Limited, a limited liability company incorporated under the laws of British Virgin Islands. The address of MMT

**Table of Contents**

- Investment Limited is P.O. Box 957, Offshore Incorporation Centre, Road Town, Tortola, British Virgin Islands. The sole director of MMT Investments Limited is Ms. Yunli Lou, who has the sole investment and voting power of MMT Investments Limited. Ms. Lou'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 4,472,272 common shares held by IPROP Holdings Limited, a limited liability company organized under the laws of the British Virgin Islands. The mailing address of IPROP Holdings Limited is Citco Building, Wickhams Cay, P.O. Box 662, Road Town, Tortola, British Virgin Islands. IPROP is wholly owned by VenFin Holdings Limited, which is registered in Jersey. VenFin Holdings Limited is wholly owned by RPII HOLDINGS Limited, which is registered in South Africa, which in turn is wholly owned by VenFin Limited, a widely held public company registered in South Africa whose shares trade in the over the counter market.
- (11) Includes 5,366,726 common shares held by GSPS Asia Limited, a limited liability company incorporated in Mauritius. GSPS Asia Limited's mailing address is Level Three, Alexander House, 35 Cybercity, Ebene, Mauritius. GSPS is a wholly owned subsidiary of the Goldman Sachs Group, Inc.
- (12) Based on the Form 13F filed by Columbia Wanger Asset Management, L.P. with the SEC for the quarter ended March 31, 2008, including 5,242,328 common shares held by Columbia Wanger Asset Management, L.P., which is a Delaware limited partnership, with the principal business address at 227 West Monroe Street, Suite 3000, Chicago, IL 60606.
- 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 Market Price of Our American Depositary Shares.

---

**Table of Contents**

**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 since our inception.

**Transactions with Our Direct Investment Entities**

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

Under our arrangements with our local operating partners, we are responsible for the procurement of equipment for our direct investment entities, such as digital displays and digital television receivers. We sell the advertising equipment to our direct investment entities at negotiated prices and record the sales of advertising equipment to our direct investment entities as advertising equipment revenues on our financial statements. We had advertising equipment revenues of US\$0.3 million for the period from April 8, 2005 (date of inception) to December 31, 2005, representing our total revenues for that period, US\$1.8 million for the year ended December 31, 2006, representing 47.5% of our total revenues for 2006 and US\$1.9 million for the year ended December 31, 2007, representing 6.5% of our total revenues for 2007.

We also purchase advertising placement services from our direct investment entities at negotiated prices. For the period from April 8 to December 31, 2005, we did not pay any amounts to our direct investment entities for advertising placement services. For the year ended December 31, 2006, we paid a total amount of US\$0.01 million to our direct investment entities for the advertising placement services. For the year ended December 31, 2007, we paid a total amount of US\$0.3 million to our direct investment entities for the advertising placement services.

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

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

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

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

## **Table of Contents**

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

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

## **Transactions with Companies under Common Control with Us**

### ***Lease and loan with Meidi Zhiye***

During the period from April 8, 2005 (date of inception) to December 31, 2005, we rented office space from Shenzhen Meidi Zhiye Development Co., Ltd., a former shareholder of CDMTV, or Meidi Zhiye, for the office space of our headquarters and CDMTV. 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\$26,037 for the period. During the same period, Meidi Zhiye leased another office building to our company for no consideration. The market value of the second lease was approximately US\$18,936 for the period. Such amount was then recorded as rental expenses and additional paid-in capital.

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

### ***Transactions with Champs Elysees***

In May 2005, Shenzhen Champs Elysees Investment Management Co., Ltd., or Champs Elysees, borrowed RMB10 million from CDMTV to buy a 49% equity interest in Shenzhen High Definition Digital TV

## **Table of Contents**

Investment Co., Ltd. from Shenzhen Huazhahui Investment Co. Ltd., an unrelated third party. Champs Elysees then sold such equity interest to CDMTV for the same price. We used Champs Elysees to facilitate the acquisition of the equity interest in Shenzhen High Definition Digital TV Investment Co., Ltd. because when the acquisition was negotiated, CDMTV was in the process of being set up and did not have the legal capacity to enter into the transaction. In February 2006, Champs Elysees repaid the total amount of the loan to CDMTV. Limin Li, our founder and chairman of our board of directors, owns more than 10% of Champs Elysees' equity interest. Mr. Li is also a director and chairman of Champs Elysees.

In January 2005, before its inception, CDMTV entrusted Champs Elysees to purchase a 49% equity interest in Chengdu Digital Mobile Television Co., Ltd. for an aggregate consideration of RMB4.9 million. In December 2005, CDMTV purchased such equity interest from Champs Elysees for the same price.

In 2005, 2006 and 2007, CDMTV paid renovation charges of US\$79,830, US\$6,306 and US\$347,029, respectively, to Champs Elysees Renovations Co., Ltd., or Champs Elysees Renovations. Limin Li's wife is the chairwoman of Champs Elysees Renovations.

### **Transaction Related to Our Corporate Structure**

Under applicable PRC laws, rules and regulations, to invest in the advertising industry, foreign investors must have at least two years of direct operations in the advertising industry as their core businesses outside of the PRC. We are a Cayman Islands corporation and a foreign legal person under PRC laws and we have not directly operated any advertising business outside of China. Therefore, we do not qualify under PRC regulations to directly own equity interest in advertising services providers. Accordingly, our subsidiary, CDTC, is ineligible to apply for the required licenses for providing advertising services in China. Our advertising business is operated through our contractual arrangements with CDMTV. CDTC and CDMTV 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 CDMTV 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. These contractual arrangements enable us to exercise effective control over CDMTV and its subsidiaries and receive substantially all of the economic benefits of CDMTV and its subsidiaries 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 CDMTV and its shareholders to renew or enter into new contractual arrangements prior to the expiration of the current arrangements on terms that would enable us to continue to operate our business in China after the expiration of the current arrangements.

### **Agreements That Transfer Economic Benefit to Us**

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

***Domain Name License Agreement.*** Pursuant to the domain name license agreement entered into on February 15, 2007 between CDTC and CDMTV, CDTC grants CDMTV the exclusive right to use its domain names www.cdmtv.tv and www.cdmg.cn, in exchange for a fee based on the gross annual revenues of CDMTV. The fee is subject to periodic adjustments by the parties. The agreement has a term of 25 years, which may be

## **Table of Contents**

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.

### **Agreements That Provide Us Effective Control Over CDMTV and Its 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 and which facilitates the establishment of our current corporate structure. CDTC made an interest-free loan of RMB50 million to the shareholders of CDMTV. The loan can be repaid only with the proceeds from the transfer of the shareholder's equity interest in CDMTV to CDTC or another person designated by CDTC pursuant to the Option Agreement as discussed below. In the event of a default under this agreement, the non-defaulting party can terminate this agreement.

***Proxy Letter.*** Limin Li and Yanqing Liang signed certain proxy letters on February 15, 2007, pursuant to which Limin Li and Yanqing Liang have granted an employee of CDTC, who is a PRC citizen, the right to exercise all their voting rights as shareholders of CDMTV 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 CDMTV owned by Limin Li and Yanqing Liang. The purchase price for the entire equity interest shall be the greater of (i) RMB50 million and (ii) the minimum price permitted by applicable PRC law and agreed upon by the parties. The option agreement remains in effect until the completion of the transfer of all the shares in accordance with the option agreement. In the event of a default under this agreement, the non-defaulting party can terminate this agreement.

***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 CDMTV to CDTC to secure their obligations under the loan agreement and CDMTV's obligations under the technology and management service agreement and domain name license agreement, each as described above. In addition, shareholders of CDMTV agree not to transfer, sell, pledge, dispose of or create any encumbrance on any equity interests in CDMTV 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.

**Table of Contents**

**DESCRIPTION OF SHARE CAPITAL**

We are a Cayman Islands exempted company with limited liability and our affairs are governed by our memorandum and articles of association, as amended and restated from time to time, and the Companies Law (as amended) of the Cayman Islands, or the Companies Law.

As of the date of this prospectus, our authorized share capital consists of 200,000,000 common shares, with a par value of US\$0.0001 each. As of June 30, 2008, there were 69,198,482 common shares issued and outstanding.

The following are summaries of material provisions of our third amended and restated memorandum and articles of association and the Companies Law insofar as they relate to the material terms of our common shares. The following discussion primarily concerns common shares and the rights of holders of common shares. Holders of our ADSs will not be treated as our shareholders and their rights are subject to the deposit agreement. See Description of American Depositary Shares.

**Common Shares**

***General***

All of our outstanding common shares are fully paid and non-assessable. Certificates representing the common shares are issued in registered form. Our shareholders who are non-residents of the Cayman Islands may freely hold and transfer their common shares.

***Dividends***

The holders of our common shares are entitled to such dividends as may be declared by our board of directors subject to the Companies Law.

***Voting Rights***

Each holder of common shares is entitled to vote on all matters upon which the common shares are entitled to vote. Voting at any meeting of shareholders is by a poll. Each holder of common shares is entitled to have one vote for each common share registered in his or her name on the register of members.

A quorum required for a meeting of shareholders consists of shareholders who hold at least 50% of our common shares at the meeting present in person or by proxy or, if a corporation or other non-natural person, by its duly authorized representative. Shareholders' meetings are held annually and may be convened by our board of directors on its own initiative or upon a request to the board of directors by shareholders holding in aggregate at least 10% of our common shares. Advance notice of at least seven days is required for the convening of our annual general meeting and other shareholders meetings.

An ordinary resolution to be passed by the shareholders requires the affirmative vote of a simple majority of the votes attaching to the common shares cast in a general meeting, while a special resolution requires the affirmative vote of no less than two-thirds of the votes cast attaching to the outstanding common shares. A special resolution will be required for important matters such as a change of name or making changes to our third amended and restated memorandum and articles of association.

***Transfer of Common Shares***

Subject to the restrictions of our third amended and restated articles of association, as applicable, any of our shareholders may transfer any or all of his or her common shares by an instrument of transfer in the usual or common form, or in a form prescribed by the Nasdaq Global Market, or any other form approved by our board of directors.

## **Table of Contents**

Our board of directors may, in its absolute discretion, decline to register any transfer of any common share which is not fully paid up or on which we have a lien. Our board of directors may also decline to register any transfer of any common share unless:

the instrument of transfer is lodged with us, accompanied by the certificate for the common shares to which it relates and such other evidence as our board of directors may reasonably require to show the right of the transferor to make the transfer;

the instrument of transfer is in respect of only one class of common shares;

the instrument of transfer is properly stamped, if required;

in the case of a transfer to joint holders, the number of joint holders to whom the common share is to be transferred does not exceed four; and

the common shares transferred are free of any lien in favor of us.

If our directors refuse to register a transfer they shall, within two months after the date on which the instrument of transfer was lodged, send to each of the transferor and the transferee notice of such refusal.

The registration of transfers may, on 14 days' notice given by advertisement in one or more newspapers or by electronic means, be suspended and the register may be closed at such times and for such periods as our board of directors may from time to time determine, provided, however, that the registration of transfers shall not be suspended and the register shall not be closed for more than 30 days in any year.

### ***Liquidation***

On a return of capital on winding up or otherwise (other than on conversion, redemption or purchase of common shares), assets available for distribution among the holders of common shares shall be distributed among the holders of the common shares on a pro rata basis. If our assets available for distribution are insufficient to repay all of the paid-up capital, the assets will be distributed so that the losses are borne by our shareholders proportionately.

### ***Calls on Common Shares and Forfeiture of Common Shares***

Our board of directors may from time to time make calls upon shareholders for any amounts unpaid on their common shares in a notice served to such shareholders at least 14 days prior to the specified time of payment. The common shares that have been called upon and remain unpaid are subject to forfeiture.

### ***Redemption of Common Shares***

Subject to the provisions of the Companies Law, we may issue shares on terms that are subject to redemption, at our option or at the option of the holders of these shares, on such terms and in such manner as our board of directors may determine. Common shares represented by the ADSs offered in this offering are not redeemable at our option or at the option of holders of these common shares.

### ***Variations of Rights of Shares***

All or any of the special rights attached to any class of shares may, subject to the provisions of the Companies Law, be varied either with the unanimous written consent of the holders of the issued shares of that class or with the sanction of a special resolution passed at a general meeting of the holders of the shares of that class. Consequently, the rights of any class of shares cannot be detrimentally altered without a majority vote of all of the shares in that class. The rights conferred upon the holders of the shares of any class issued with preferred or other rights shall not, unless otherwise expressly provided by the terms of issue of the shares of that class, be deemed to be varied by the creation or issue of further shares ranking *pari passu* with such existing



## **Table of Contents**

class of shares. The rights of holders of common shares shall not be deemed to be varied by the creation or issue of shares with preferred or other rights which may be effected by the directors as provided in the articles of association without any vote or consent of the holders of common shares.

### ***General Meetings of Shareholders***

Our board of directors may, and shall on the requisition of shareholders holding at least 10% of the paid up capital of our company carrying voting rights at general meetings, proceed to convene a general meeting of such shareholders. If the directors do not within 21 days from the deposit of the requisition duly proceed to convene a general meeting, which will be held within a further period of 21 days, the requisitioning shareholders, or any of them holding more than 50% of the total voting rights of all of the requisitioning shareholders, may themselves convene a general meeting. Any such general meeting must be convened within three months after the expiration of such 21-day period.

### ***Inspection of Books and Records***

Holders of our common shares have no general right under Cayman Islands law to inspect or obtain copies of our list of shareholders or our corporate records. However, we will provide our shareholders with annual audited financial statements. See [Where You Can Find Additional Information](#).

### **Exempted Company**

We are an exempted company with limited liability under the Companies Law. The Companies Law distinguishes between ordinary resident companies and exempted companies. Any company that is registered in the Cayman Islands but conducts business mainly outside of the Cayman Islands may apply to be registered as an exempted company. The requirements for an exempted company are essentially the same as for an ordinary company except that an exempted company:

does not have to file an annual return of its shareholders with the Registrar of Companies;

is not required to open its register of members for inspection;

does not have to hold an annual general meeting;

may issue negotiable or bearer shares or shares with no par value;

may obtain an undertaking against the imposition of any future taxation (such undertakings are typically given for 20 years in the first instance);

may register by way of continuation in another jurisdiction and be deregistered in the Cayman Islands;

may register as a limited duration company; and

may register as a segregated portfolio company.

Limited liability means that the liability of each shareholder is limited to the amount unpaid by the shareholder on the shares of the company.

### **Differences in Corporate Law**

## Edgar Filing: VISIONCHINA MEDIA INC. - Form F-1

The Companies Law is modeled after that of English law but does not follow many recent English law statutory enactments. In addition, the Companies Law differs from laws applicable to United States corporations and their shareholders. Set forth below is a summary of the significant differences between the provisions of the Companies Law applicable to us and the laws applicable to companies incorporated in the State of Delaware.

---

## **Table of Contents**

### ***Mergers and Similar Arrangements***

Cayman Islands law does not provide for mergers as that term is understood under the Delaware General Corporate Law. However, there are statutory provisions that facilitate the reconstruction and amalgamation of companies, provided that the arrangement is approved by a majority in number of each class of shareholders and creditors with whom the arrangement is to be made, and who must in addition represent three-fourths in value of each such class of shareholders or creditors, as the case may be, that are present and voting either in person or by proxy at a meeting, or meetings, convened for that purpose. The convening of the meetings and the subsequent arrangements must be sanctioned by the Grand Court of the Cayman Islands. While a dissenting shareholder has the right to express to the court the view that the transaction ought not to be approved, the court can be expected to approve the arrangement if it determines that:

the statutory provisions as to the majority vote have been met;

the shareholders have been fairly represented at the meeting in question;

the arrangement is such that a businessman would reasonably approve; and

the arrangement is not one that would more properly be sanctioned under some other provision of the Companies Law. When a takeover offer is made and accepted by holders of 90% of the shares within four months, the offerer may, within a two-month period, require the holders of the remaining shares to transfer such shares pursuant to the terms of the offer. An objection can be made to the Grand Court of the Cayman Islands but this is unlikely to succeed unless there is evidence of fraud, bad faith or collusion.

If the arrangement and reconstruction is thus approved, the dissenting shareholder would have no rights comparable to appraisal rights, which would otherwise ordinarily be available to dissenting shareholders of Delaware corporations, providing rights to receive payment in cash for the judicially determined value of the shares.

### ***Shareholders Suits***

We are not aware of any reported class action or derivative action having been brought in a Cayman Islands court. In principle, we will normally be the proper plaintiff and a derivative action may not be brought by a minority shareholder. However, based on English authorities, which would in all likelihood be of persuasive authority in the Cayman Islands, there are exceptions to the foregoing principle, including when:

a company acts or proposes to act illegally or *ultra vires*;

the act complained of, although not *ultra vires*, could be effected duly if authorized by a special resolution that has not been obtained; and

those who control the company are perpetrating a fraud on the minority.

### ***Indemnification of Directors and Executive Officers and Limitation of Liability***

Cayman Islands law does not limit the extent to which a company's memorandum and articles of association may provide for indemnification of directors and officers, except to the extent any such provision may be held by the Cayman Islands courts to be contrary to public policy, such as to provide indemnification against civil fraud or the consequences of committing a crime. Our third amended and restated memorandum and articles of association permit indemnification of directors and officers for losses, damages, costs and expenses incurred in their capacities as such unless such losses or damages arise from dishonesty, fraud or default of such directors or officers. This standard of conduct is generally the same as permitted under the Delaware General Corporation Law for a Delaware corporation. In addition, we have entered into indemnification

agreements with

---

## **Table of Contents**

our directors and senior executive officers that provide such persons with additional indemnification beyond that provided in our third amended and restated memorandum and articles of association.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to our directors, officers or persons controlling us under the foregoing provisions, we have been informed that in the opinion of the U.S. Securities and Exchange Commission, or SEC, such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

### ***Directors' Fiduciary Duties***

Under Delaware corporate law, a director of a Delaware corporation has a fiduciary duty to the corporation and its shareholders. This duty has two components: the duty of care and the duty of loyalty. The duty of care requires that a director act in good faith, with the care that an ordinarily prudent person would exercise under similar circumstances. Under this duty, a director must inform himself of, and disclose to shareholders, all material information reasonably available regarding a significant transaction. The duty of loyalty requires that a director acts in a manner he reasonably believes to be in the best interests of the corporation. He must not use his corporate position for personal gain or advantage. This duty prohibits self-dealing by a director and mandates that the best interest of the corporation and its shareholders take precedence over any interest possessed by a director, officer or controlling shareholder and not shared by the shareholders generally. In general, actions of a director are presumed to have been made on an informed basis, in good faith and in the honest belief that the action taken was in the best interests of the corporation. However, this presumption may be rebutted by evidence of a breach of one of the fiduciary duties. Should such evidence be presented concerning a transaction by a director, the director must prove the procedural fairness of the transaction, and that the transaction was of fair value to the corporation.

As a matter of Cayman Islands law, a director of a Cayman Islands company is in the position of a fiduciary with respect to the company and therefore it is considered that he owes the following duties to the company a duty to act bona fide in the best interests of the company, a duty not to make a profit based on his position as director (unless the company permits him to do so) and a duty not to put himself in a position where the interests of the company conflict with his personal interests or his duty to a third party. A director of a Cayman Islands company owes to the company a duty to act with skill and care. It was previously considered that a director need not exhibit in the performance of his duties a greater degree of skill than may reasonably be expected from a person of his knowledge and experience. However, English and Commonwealth courts have moved towards an objective standard with regard to the required skill and care and these authorities are likely to be followed in the Cayman Islands.

### ***Shareholder Action by Written Consent***

Under the Delaware General Corporation Law, a corporation may eliminate the right of shareholders to act by written consent by amendment to its certificate of incorporation. Cayman Islands law and our third amended and restated articles of association provide that shareholders may approve corporate matters by way of a unanimous written resolution signed by or on behalf of each shareholder who would have been entitled to vote on such matter at a general meeting without a meeting being held.

### ***Shareholder Proposals***

Under the Delaware General Corporation Law, a shareholder has the right to put any proposal before the annual meeting of shareholders, provided it complies with the notice provisions in the governing documents. A special meeting may be called by the board of directors or any other person authorized to do so in the governing documents, but shareholders may be precluded from calling special meetings.

Cayman Islands law and our third amended and restated articles of association allow our shareholders holding not less than 10% of the paid-up voting share capital of the company to requisition a shareholder s

## **Table of Contents**

meeting. As an exempted Cayman Islands company, we are not obliged by law to call shareholders' annual general meetings. However, our third amended and restated articles of association require us to call such meetings.

### ***Cumulative Voting***

Under the Delaware General Corporation Law, cumulative voting for elections of directors is not permitted unless the corporation's certificate of incorporation specifically provides for it. Cumulative voting potentially facilitates the representation of minority shareholders on a board of directors since it permits the minority shareholder to cast all the votes to which the shareholder is entitled on a single director, which increases the shareholder's voting power with respect to electing such director. There are no prohibitions in relation to cumulative voting under the laws of the Cayman Islands but our third amended and restated articles of association do not provide for cumulative voting. As a result, our shareholders are not afforded any less protections or rights on this issue than shareholders of a Delaware corporation.

### ***Removal of Directors***

Under the Delaware General Corporation Law, a director of a corporation with a classified board may be removed only for cause with the approval of a majority of the outstanding shares entitled to vote, unless the certificate of incorporation provides otherwise. Under our third amended and restated articles of association, directors may be removed without cause, but only by the vote of holders of two-thirds of our shares, cast at a general meeting, or the unanimous written resolution of all shareholders, or with cause, by the ordinary resolution or the unanimous written resolution of all shareholders.

### ***Transactions with Interested Shareholders***

The Delaware General Corporation Law contains a business combination statute applicable to Delaware corporations whereby, unless the corporation has specifically elected not to be governed by such statute by amendment to its certificate of incorporation, it is prohibited from engaging in certain business combinations with an interested shareholder for three years following the date that such person becomes an interested shareholder. An interested shareholder generally is a person or a group who or which owns or owned 15% or more of the target's outstanding voting stock within the past three years. This has the effect of limiting the ability of a potential acquirer to make a two-tiered bid for the target in which all shareholders would not be treated equally. The statute does not apply if, among other things, prior to the date on which such shareholder becomes an interested shareholder, the board of directors approves either the business combination or the transaction which resulted in the person becoming an interested shareholder. This encourages any potential acquirer of a Delaware corporation to negotiate the terms of any acquisition transaction with the target's board of directors.

Cayman Islands law has no comparable statute. As a result, we cannot avail ourselves of the types of protections afforded by the Delaware business combination statute. However, although Cayman Islands law does not regulate transactions between a company and its significant shareholders, it does provide that such transactions must be entered into bona fide in the best interests of the company and not with the effect of constituting a fraud on the minority shareholders.

### ***Dissolution; Winding up***

Under the Delaware General Corporation Law, unless the board of directors approves the proposal to dissolve, dissolution must be approved by shareholders holding 100% of the total voting power of the corporation. Only if the dissolution is initiated by the board of directors may it be approved by a simple majority of the corporation's outstanding shares. Delaware law allows a Delaware corporation to include in its certificate of incorporation a supermajority voting requirement in connection with dissolutions initiated by the board. Under the Companies Law and our third amended and restated articles of association, our company may be dissolved, liquidated or wound up by the vote of holders of two-thirds of our shares voting at a meeting or the unanimous written resolution of all shareholders.

## **Table of Contents**

### ***Variation of Rights of Shares***

Under the Delaware General Corporation Law, a corporation may vary the rights of a class of shares with the approval of a majority of the outstanding shares of such class, unless the certificate of incorporation provides otherwise. Under Cayman Islands law and our third amended and restated memorandum and articles of association, if our share capital is divided into more than one class of shares, we may vary the rights attached to any class only with the vote at a class meeting of holders of two-thirds of the shares of such class or the unanimous written resolution of all shareholders.

### ***Amendment of Governing Documents***

Under the Delaware General Corporation Law, a corporation's governing documents may be amended with the approval of a majority of the outstanding shares entitled to vote, unless the certificate of incorporation provides otherwise. As permitted by Cayman Islands law, our third amended and restated memorandum and articles of association may only be amended with a special resolution of all shareholders.

### ***Rights of Non-resident or Foreign Shareholders***

There are no limitations imposed by our third amended and restated memorandum and articles of association on the rights of non-resident or foreign shareholders to hold or exercise voting rights on our shares. In addition, there are no provisions in our third amended and restated memorandum and articles of association governing the ownership threshold above which shareholder ownership must be disclosed.

### **Registration Rights**

Pursuant to our amended and restated shareholders agreement dated March 9, 2007, we have granted certain registration rights to holders of our registrable securities, which include our preferred shares and common shares as of the date of the shareholders agreement. Set forth below is a description of the registration rights granted under the agreement.

#### ***Demand Registration Rights***

At any time after April 12, 2008, holders of at least 15% of registrable securities have the right to demand that we file a registration statement covering the offer and sale of their securities. We, however, are not obligated to effect a demand registration (1) if we have already effected two demand registrations, (2) if we notify the requesting holder of the registrable securities of our intention to make a public offering within 60 days, or (3) during the period beginning on the filing date, and ending on the 180th day after the effective date of a registration statement relating to, a public offering of our securities initiated by us. We have the right to defer filing of a registration statement for up to 120 days if we provide the requesting holders a certificate signed by our chief executive officer stating that in the good faith judgment of the board of directors the filing of a registration statement will be detrimental to us and our shareholders, but we cannot exercise the deferral right more than once in any 12-month period.

#### ***Piggyback Registration Rights***

If we propose to file a registration statement for a public offering of our securities other than, among other things, relating to a stock option plan or a corporate reorganization, then we must offer holders of registrable securities an opportunity to include in the registration all or any part of their registrable securities. The underwriters of any underwritten offering will have the right to limit the number of shares with registration rights to be included in the registration statement.

**Table of Contents**

***Form F-3 Registration Rights***

When we are eligible for use of Form F-3, holders of our registrable securities then outstanding have the right to request that we file a registration statement under Form F-3. We are not obligated to file a registration statement on Form F-3 (1) if we notify the requesting holder of the registrable securities of our intention to make a public offering within 60 days, or (2) during the period beginning on the filing date of, and ending on the 180th day after the effective date of a registration statement relating to, a public offering of our securities initiated by us. We have the right to defer filing of a registration statement for up to 120 days if we provide the requesting holders a certificate signed by our chief executive officer stating that in the good faith judgment of the board of directors the filing of a registration statement will be detrimental to us and our shareholders, but we cannot exercise the deferral right more than once in any 12-month period.

***Expenses of Registration***

We will pay all expenses, other than underwriting discounts and commissions, relating to any demand, piggyback or F-3 registration.

For more detailed information relating to the registration rights, see the amended and restated shareholders agreement filed as an exhibit to the registration statement that includes this prospectus.

---

**Table of Contents**

**DESCRIPTION OF AMERICAN DEPOSITARY SHARES**

The Bank of New York Mellon, or BNY, has agreed to act as the depository for the American depositary shares. The Bank of New York Mellon's depository offices are located at 101 Barclay Street, New York, New York 10286. American depositary shares are frequently referred to as ADSs and represent ownership interests in securities that are on deposit with the depository. ADSs may be represented by certificates that are commonly known as American Depositary Receipts or ADRs. The depository typically appoints a custodian to safekeep the securities on deposit. In this case, the custodian is the Hong Kong and Shanghai Banking Corporation Limited.

We have appointed BNY as depository pursuant to a deposit agreement. A copy of the deposit agreement is on file with the SEC under cover of a Registration Statement on Form F-6. You may obtain a copy of the deposit agreement from the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549 and from the SEC's website ([www.sec.gov](http://www.sec.gov)).

We are providing you with a summary description of the material terms of the ADSs and of your material rights as an owner of ADSs. Please remember that summaries by their nature lack the precision of the information summarized and that the rights and obligations of an owner of ADSs will be determined by reference to the terms of the deposit agreement and not by this summary. We urge you to review the deposit agreement in its entirety. The portions of this summary description that are italicized describe matters that may be relevant to the ownership of ADSs but that may not be contained in the deposit agreement.

Each ADS represents the right to receive one common share, par value US\$0.0001 per share, on deposit with the custodian. An ADS also represents the right to receive any other property received by the depository or the custodian on behalf of the owner of the ADS but that has not been distributed to the owners of ADSs because of legal restrictions or practical considerations.

If you become an owner of ADSs, you will become a party to the deposit agreement and therefore will be bound to its terms and if applicable, to the terms of any ADR that represents your ADSs. The deposit agreement and the ADR specify our rights and obligations as well as your rights and obligations as owner of ADSs and those of the depository. The deposit agreement and the ADRs are governed by New York law. However, our obligations to the holders of common shares will continue to be governed by the laws of the Cayman Islands, which may be different from the laws of the United States.

In addition, applicable laws and regulations may require you to satisfy reporting requirements and obtain regulatory approvals in certain circumstances. You are solely responsible for complying with such reporting requirements and obtaining such approvals. Neither the depository, the custodian, us nor any of their or our respective agents or affiliates shall be required to take any actions whatsoever on behalf of you to satisfy such reporting requirements or obtain such regulatory approvals under applicable laws and regulations.

*As an owner of ADSs, you may hold your ADSs either by means of an ADR registered in your name, through a brokerage or safekeeping account, or through an account established by the depository in your name reflecting the registration of uncertificated ADSs directly on the books of the depository (commonly referred to as the direct registration system or DRS). The direct registration system reflects the uncertificated (book-entry) registration of ownership of ADSs by the depository. Under the direct registration system, ownership of ADSs is evidenced by periodic statements issued by the depository to the holders of the ADSs. The direct registration system includes automated transfers between the depository and The Depository Trust Company (DTC), the central book-entry clearing and settlement system for equity securities in the United States. If you decide to hold your ADSs through your brokerage or safekeeping account, you must rely on the procedures of your broker or bank to assert your rights as ADS owner. Banks and brokers typically hold securities such as the ADSs through clearing and settlement systems such as DTC. The procedures of such clearing and settlement systems may limit your ability to exercise your rights as an owner of ADSs. Please consult with your broker or bank if you have any questions concerning these limitations and procedures. All ADSs held through DTC will be*

## **Table of Contents**

*registered in the name of a nominee of DTC. This summary description assumes you have opted to own the ADSs directly registered in your name and, as such, we will refer to you as the holder. When we refer to you, we assume the reader owns ADSs and will own ADSs at the relevant time.*

### **Dividends and Distributions**

As a holder, you generally have the right to receive the distributions we make on the securities deposited with the custodian. Your receipt of these distributions may be limited, however, by practical considerations and legal limitations. Holders will receive such distributions under the terms of the deposit agreement in proportion to the number of ADSs held as of a specified record date.

#### ***Distributions of Cash***

Whenever we make a cash distribution for the securities on deposit with the custodian, we will deposit the funds with the custodian. Upon receipt of confirmation of the deposit of the requisite funds, the depository will arrange for the funds to be converted into U.S. dollars and for the distribution of the U.S. dollars to the holders, subject applicable laws and regulations.

The conversion into U.S. dollars will take place only if practicable and can be made on a reasonable basis and if the U.S. dollars are transferable to the United States. The amounts distributed to holders will be net of the fees, expenses, taxes and governmental charges payable by holders under the terms of the deposit agreement. The depository will apply the same method for distributing the proceeds of the sale of any property (such as undistributed rights) held by the custodian in respect of securities on deposit.

The distribution of cash will be made net of the fees, expenses, taxes and governmental charges payable by holders under the terms of the deposit agreement.

#### ***Distributions of Shares***

Whenever we make a free distribution of common shares in respect of the securities on deposit with the custodian, we will deposit the applicable number of common shares with the custodian. Upon receipt of confirmation of such deposit, the depository will *either* distribute to holders new ADSs representing the common shares deposited *or* modify the ADS-to-common shares ratio, in which case each ADS you hold will represent rights and interests in the additional common shares so deposited. Only whole new ADSs will be distributed. Fractional entitlements will be sold and the proceeds of such sale will be distributed as in the case of a cash distribution.

The distribution of new ADSs or the modification of the ADS-to-common shares ratio upon a distribution of common shares will be made net of the fees, expenses, taxes and governmental charges payable by holders under the terms of the deposit agreement. In order to pay such fees, expenses, taxes or governmental charges, the depository may sell all or a portion of the new common shares so distributed.

No such distribution of new ADSs will be made if it would violate a law or if it is not operationally practicable. If the depository does not distribute new ADSs as described above, it may sell the common shares received upon the terms described in the deposit agreement and will distribute the proceeds of the sale as in the case of a distribution of cash.

#### ***Distributions of Rights***

Whenever we intend to distribute rights to purchase additional common shares, we will give prior notice to the depository and we will assist the depository in determining whether it is lawful and reasonably practicable to distribute rights to purchase additional ADSs to holders.

## **Table of Contents**

The depositary may establish procedures to distribute rights to purchase additional ADSs to holders and to enable such holders to exercise such rights if it is lawful and reasonably practicable to make the rights available to holders of ADSs, and if we provide all of the documentation contemplated in the deposit agreement (such as opinions to address the lawfulness of the transaction). You may have to pay fees, expenses, taxes and other governmental charges to subscribe for the new ADSs upon the exercise of your rights. The depositary is not obligated to establish procedures to facilitate the distribution and exercise by holders of rights to purchase new common shares other than in the form of ADSs.

The depositary will *not* distribute the rights to you if:

We do not timely request that the rights be distributed to you or we request that the rights not be distributed to you;

We fail to deliver satisfactory documents to the depositary; or

It is not reasonably practicable to distribute the rights.

The depositary may sell the rights that are not exercised or not distributed if such sale is lawful and reasonably practicable. The proceeds of such sale will be distributed to holders as in the case of a cash distribution. If the depositary is unable to sell the rights, it will allow the rights to lapse.

### ***Other Distributions***

Whenever we intend to distribute property other than cash, common shares or rights to purchase additional common shares, we will notify the depositary in advance. We will assist the depositary in determining whether such distribution to holders is lawful and reasonably practicable.

If it is reasonably practicable to distribute such property to you and if we provide all of the documentation contemplated in the deposit agreement, the depositary will distribute the property to the holders in a manner it deems practicable.

The distribution will be made net of fees, expenses, taxes and governmental charges payable by holders under the terms of the deposit agreement. In order to pay such fees, expenses, taxes and governmental charges, the depositary may sell all or a portion of the property received.

The depositary will *not* distribute the property to you and will sell the property if:

We do not deliver satisfactory documents to the depositary; or

The depositary determines that all or a portion of the distribution to you is not reasonably practicable.

The proceeds of such a sale will be distributed to holders as in the case of a cash distribution.

### **Changes Affecting Common Shares**

The common shares held on deposit for your ADSs may change from time to time. For example, there may be a change in nominal or par value, a split-up, cancellation, consolidation or reclassification of such common shares or a recapitalization, reorganization, merger, consolidation or sale of assets.

If any such change were to occur, your ADSs would, to the extent permitted by law, represent the right to receive the property received or exchanged in respect of the common shares held on deposit. The depositary may in such circumstances deliver new ADSs to you, amend the deposit agreement, the ADRs and the applicable Registration Statement(s) on Form F-6, call for the exchange of your existing ADSs for new ADSs and take any



## **Table of Contents**

other actions that are appropriate to reflect as to the ADSs the change affecting the common shares. If the depositary may not lawfully distribute such property to you, the depositary may sell such property and distribute the net proceeds to you as in the case of a cash distribution.

### **Issuance of ADSs Upon Deposit of Common Shares**

The depositary will deliver ADSs on your behalf if you or your broker deposit common shares with the custodian. The depositary will deliver these ADSs to the person you indicate only after you pay any applicable issuance fees and any charges and taxes payable for the transfer of the common shares to the custodian. Your ability to deposit common shares and receive ADSs may be limited by U.S. and Cayman Islands legal considerations applicable at the time of deposit.

The issuance of ADSs may be delayed until the depositary or the custodian receives confirmation that all required approvals have been given and that the common shares have been duly transferred to the custodian. The depositary will only deliver ADSs in whole numbers.

When you make a deposit of common shares, you will be responsible for transferring good and valid title to the depositary. As such, you will be deemed to represent and warrant that:

The common shares are duly authorized, validly issued, fully paid, non-assessable.

All preemptive (and similar) rights, if any, with respect to such common shares have been validly waived or exercised.

You are duly authorized to deposit the common shares.

The common shares presented for deposit are not, and the ADSs issuable upon such deposit will not be, restricted securities under the Securities Act of 1933.

### **Transfer, Combination and Split Up of ADRs**

As an ADR holder, you will be entitled to transfer your ADSs and to combine or split up your ADRs and the ADSs evidenced thereby. For transfers of ADSs, you will have to surrender the ADRs, if any, to be transferred to the depositary and also must:

ensure that the surrendered ADR certificate is properly endorsed or otherwise in proper form for transfer;

provide such proof of identity and genuineness of signatures as the depositary deems appropriate;

provide any transfer stamps required by the State of New York or the United States; and

pay all applicable fees, charges, expenses, taxes and other government charges payable by ADS holders pursuant to the terms of the deposit agreement, upon the transfer of ADSs.

To have your ADRs either combined or split up, you must surrender the ADRs in question to the depositary with you request to have them combined or split up, and you must pay all applicable fees, charges and expenses payable by ADR holders, pursuant to the terms of the deposit agreement, upon a combination or split up of ADRs.

### **Withdrawal of Common Shares Upon Cancellation of ADSs**

## Edgar Filing: VISIONCHINA MEDIA INC. - Form F-1

As a holder, you will be entitled to present your ADSs to the depositary for cancellation and then receive the corresponding number of underlying common shares at the custodian's offices. Your ability to withdraw the common shares may be limited by U.S. and Cayman Islands considerations applicable at the time

## **Table of Contents**

of withdrawal. In order to withdraw the common shares represented by your ADSs, you will be required to pay to the depositary the fees for cancellation of ADSs and any charges and taxes payable upon the transfer of the common shares being withdrawn. You assume the risk for delivery of all funds and securities upon withdrawal. Once canceled, the ADSs will not have any rights under the deposit agreement.

If you hold ADSs registered in your name, the depositary may ask you to provide proof of identity and genuineness of any signature and such other documents as the depositary may deem appropriate before it will cancel your ADSs. The withdrawal of the common shares represented by your ADSs may be delayed until the depositary receives satisfactory evidence of compliance with all applicable laws and regulations. Please keep in mind that the depositary will only accept ADSs for cancellation that represent a whole number of securities on deposit.

You will have the right to withdraw the securities represented by your ADSs at any time except for:

Temporary delays that may arise because (i) the transfer books for the common shares or ADSs are closed, or (ii) common shares are immobilized on account of a shareholders' meeting or a payment of dividends.

Obligations to pay fees, taxes and similar charges.

Restrictions imposed because of laws or regulations applicable to ADSs or the withdrawal of securities on deposit.

The deposit agreement may not be modified to impair your right to withdraw the securities represented by your ADSs except to comply with mandatory provisions of law.

## **Interchanging Between Certificated and Uncertificated ADSs**

As a holder, you may surrender your ADR to the depositary for the purpose of exchanging your ADR for uncertificated ADSs. The depositary will cancel that ADR and will send you a statement confirming that you are the owner of uncertificated ADSs. Alternatively, upon receipt by the depositary of a proper instruction from a holder of uncertificated ADSs requesting the exchange of uncertificated ADSs for certificated ADSs, the depositary will execute and deliver to you an ADR evidencing those ADSs.

## **Voting Rights**

As a holder, you generally have the right under the deposit agreement to instruct the depositary to exercise the voting rights for the common shares represented by your ADSs. The voting rights of holders of common shares are described in Description of Share Capital.

At our request and timely notification, the depositary will distribute to you any notice of a shareholders' meeting received from us together with information explaining how to instruct the depositary to exercise the voting rights of the securities represented by ADSs.

If the depositary timely receives voting instructions from a holder of ADSs, it will endeavor to vote the securities represented by the holder's ADSs in accordance with such voting instructions.

If the depositary does not timely receive voting instructions from a holder of ADSs and we have timely provided the depositary with our notice of meeting and related materials, that holder will be deemed, and the depositary will deem that holder to have instructed the depositary to give a discretionary proxy to a person designated by us to vote the common shares represented by the ADSs at our discretion, unless:

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

**Table of Contents**

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.

Please note that the ability of the depositary to carry out voting instructions may be limited by practical and legal limitations and the terms of the securities on deposit. We cannot assure you that you will receive voting materials in time to enable you to return voting instructions to the depositary in a timely manner. Securities for which no voting instructions have been received may not be voted.

**Fees and Charges**

As an ADS holder, you will be required to pay the following service fees to the depositary:

<b>Service</b>	<b>Fees</b>
Issuance of ADSs	Up to US\$0.05 per ADS issued
Cancellation of ADSs	Up to US\$0.05 per ADS cancelled
Distribution of cash dividends or other cash distributions	Up to US\$0.02 per ADS held
Distribution of ADSs pursuant to stock dividends, free stock distributions or exercise of rights.	Up to US\$0.05 per ADS issued
Distribution of securities other than ADSs or rights to purchase additional ADSs	Equivalent to the fee that would apply if the distributed securities had been deposited for issuance of ADSs
Depositary Services	Up to US\$0.02 per year per ADS held on the applicable record date(s) established by the Depositary

As an ADS holder you will also be responsible to pay certain fees and expenses incurred by the depositary and certain taxes and governmental charges such as:

Fees for the transfer and registration of common shares charged by the registrar and transfer agent for the common shares (*i.e.*, upon deposit and withdrawal of common shares).

Expenses incurred for converting foreign currency into U.S. dollars.

Expenses for cable, telex and fax transmissions and for delivery of securities.

Taxes and duties upon the transfer of securities (*i.e.*, when common shares are deposited or withdrawn from deposit).

Fees and expenses incurred in connection with the delivery or servicing of common shares on deposit.

*Depositary fees payable upon the issuance and cancellation of ADSs are typically paid to the depositary by the brokers (on behalf of their clients) receiving the newly issued ADSs from the depositary and by the brokers (on behalf of their clients) delivering the ADSs to the depositary for cancellation. The brokers in turn charge these fees to their clients. Depositary fees payable in connection with distributions of cash or securities to ADS holders and the depositary services fee are charged by the depositary to the holders of record of ADSs as of the applicable ADS record date.*

*The depositary fees payable for cash distributions are generally deducted from the cash being distributed. In the case of distributions other than cash (i.e., stock dividend, rights), the depositary charges the*



## **Table of Contents**

*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 uncertificated in direct registration), the depositary sends invoices to the applicable record date ADS holders. In the case of ADSs held in brokerage and custodian accounts (via DTC), the depositary generally collects its fees through the systems provided by DTC (whose nominee is the registered holder of the ADSs held in DTC) from the brokers and custodians holding ADSs in their DTC accounts. The brokers and custodians who hold their clients' ADSs in DTC accounts in turn charge their clients' accounts the amount of the fees paid to the depositary.*

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

Note that the fees and charges you may be required to pay may vary over time and may be changed by us and by the depositary. You will receive prior notice of such changes.

*The Bank of New York Mellon, as depositary, has agreed to reimburse us for certain expenses we incur that are related to establishment and maintenance of the ADS program, including investor relations expenses and stock market application and listing fees. There are limits on the amount of expenses for which the depositary will reimburse us, but the amount of reimbursement available to us is not related to the amount of fees the depositary collects from investors.*

## **Amendments and Termination**

We may agree with the depositary to modify the deposit agreement at any time without your consent. The depositary will give holders 30 days prior notice of any modifications that would materially prejudice any of their substantial rights under the deposit agreement.

You will be bound by the modifications to the deposit agreement if you continue to hold your ADSs after the modifications to the deposit agreement become effective. The deposit agreement cannot be amended to prevent you from withdrawing the common shares represented by your ADSs (except to comply with laws).

We have the right to direct the depositary to terminate the deposit agreement. Similarly, the depositary may in certain circumstances on its own initiative terminate the deposit agreement. In either case, the depositary must give notice to the holders at least 30 days before termination. Until termination, your rights under the deposit agreement will be unaffected.

After termination, the depositary will continue to collect distributions received (but will not distribute any such property until you request the cancellation of your ADSs) and may sell the securities held on deposit. After the sale, the depositary will hold the proceeds from such sale and any other funds then held for the holders of ADSs in a non-interest bearing account. At that point, the depositary will have no further obligations to holders other than to account for the funds then held for the holders of ADSs still outstanding (after deduction of applicable fees, taxes and expenses).

## **Books of Depositary**

The depositary will maintain ADS holder records at its depositary office. You may inspect such records at such office during regular business hours but solely for the purpose of communicating with other holders in the interest of business matters relating to the ADSs and the deposit agreement.

The depositary will maintain facilities in New York to record and process the issuance, cancellation, combination, split-up and transfer of ADSs. These facilities may be closed from time to time, to the extent not prohibited by law.

## **Table of Contents**

### **Limitations on Obligations and Liabilities**

The deposit agreement limits our obligations and the depositary's obligations to you. Please note the following:

We and the depositary are obligated only to take the actions specifically stated in the deposit agreement without negligence or bad faith.

The depositary disclaims any liability for any failure to carry out voting instructions, for any manner in which a vote is cast or for the effect of any vote, provided it acts in good faith.

The depositary disclaims any liability for the validity or worth of the common shares, or for allowing any rights to lapse under the terms of the deposit agreement.

We and the depositary disclaim any liability if we are prevented or forbidden from acting on account of any law or regulation, any provision of our memorandum and articles of association, as amended and restated from time to time, any provision of any securities on deposit or by reason of any act of God or war or other circumstances beyond our control.

We and the depositary disclaim any liability by reason of any exercise of, or failure to exercise, any discretion provided for the deposit agreement or in our memorandum and articles of association, as amended and restated from time to time, or in any provisions of securities on deposit.

We and the depositary further disclaim any liability for any action or inaction in reliance on the advice or information received from legal counsel, accountants, any person presenting common shares for deposit, any holder of ADSs or authorized representatives thereof, or any other person believed by either of us in good faith to be competent to give such advice or information.

We and the depositary also disclaim liability for the inability by a holder to benefit from any distribution, offering, right or other benefit which is made available to holders of common shares but is not, under the terms of the deposit agreement, made available to you.

We and the depositary may rely without any liability upon any written notice, request or other document believed to be genuine and to have been signed or presented by the proper parties.

We and the depositary also disclaim liability for any consequential or punitive damages for any breach of the terms of the deposit agreement.

### **Pre-Release of ADSs**

The depositary may, in certain circumstances, deliver ADSs before receiving a deposit of common shares. These transactions are commonly referred to as pre-release transactions. The depositary may deliver common shares upon surrender of ADSs that have been pre-released. The deposit agreement limits the aggregate size of pre-release transactions and imposes a number of conditions on such transactions (*i.e.*, the need to receive collateral, the type of collateral required, the representations required from brokers, etc.). The depositary may retain the compensation received from the pre-release transactions.

### **Taxes**

## Edgar Filing: VISIONCHINA MEDIA INC. - Form F-1

You will be responsible for the taxes and other governmental charges payable on the ADSs and the securities represented by the ADSs. We, the depositary and the custodian may deduct from any distribution the taxes and governmental charges payable by holders and may sell any and all property on deposit to pay the taxes and governmental charges payable by holders. You will be liable for any deficiency if the sale proceeds do not cover the taxes that are due.

The depositary may refuse to issue ADSs, to deliver, transfer, split and combine ADRs or to release securities on deposit until all taxes and charges are paid by the applicable holder.

**Table of Contents**

**Foreign Currency Conversion**

The depository will arrange for the conversion of all foreign currency received into U.S. dollars if such conversion is practical and can be made on a reasonable basis, and it will distribute the U.S. dollars in accordance with the terms of the deposit agreement. You may have to pay fees and expenses incurred in converting foreign currency, such as fees and expenses incurred in complying with currency exchange controls and other governmental requirements.

If the conversion of foreign currency is not practical or lawful, or if any required approvals are denied or not obtainable at a reasonable cost or within a reasonable period, the depository may take the following actions in its discretion:

Convert the foreign currency to the extent practical and lawful and distribute the U.S. dollars to the holders for whom the conversion and distribution is lawful and practical.

Distribute the foreign currency to holders for whom the distribution is lawful and practical.

Hold the foreign currency (without liability for interest) for the applicable holders.

**Table of Contents****SHARES ELIGIBLE FOR FUTURE SALE**

Upon completion of this offering, we will have \_\_\_\_\_ outstanding ADSs representing approximately \_\_\_\_\_ % of our common shares in issue. All of the ADSs sold in this offering will be freely transferable by persons other than our affiliates without restriction or further registration under the Securities Act. Sales of substantial amounts of our ADSs in the public market could adversely affect prevailing market prices of our ADSs.

**Lock-Up**

We have agreed that we will not, directly or indirectly, (i) offer, issue, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend or otherwise transfer or dispose of, directly or indirectly, any of our common shares or ADSs or securities convertible into or exchangeable or exercisable for any of our common shares or ADSs or any of our securities that are substantially similar to our common shares or ADSs, (ii) enter into a transaction that would have the same effect, or enter into any swap, hedge or other arrangement that transfers, in whole or in part, any of the economic consequences of ownership of our common shares or ADSs or any of our securities that are substantially similar to our common shares or ADSs, whether any of these transactions are to be settled by delivery of our common shares, ADSs or such other securities, in cash or otherwise, (iii) establish or increase a put equivalent position or liquidate or decrease a call equivalent position in our common shares or ADSs or any of our securities that are substantially similar to our common shares or ADSs, (iv) file with the SEC a registration statement under the Securities Act relating to any of our common shares or ADSs or securities convertible into or exchangeable or exercisable for any of our common shares or ADSs or any of our securities that are substantially similar to our common shares or ADSs, or (v) publicly disclose the intention to make any offer, sale, pledge or disposition, or to enter into any transaction, swap, hedge or other arrangement, without, in each case, the prior written consent of the representatives for a period of 90 days after the date of this prospectus.

The selling shareholders have agreed that they will not directly or indirectly, (i) offer, sell, contract to sell, pledge or otherwise transfer or dispose of, directly or indirectly, any of our common shares or ADSs or securities convertible into or exchangeable or exercisable for any of our common shares or ADSs, enter into a transaction that would have the same effect, (ii) enter into any swap, hedge or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of our common shares or ADSs, whether any of these transactions are to be settled by delivery of our common shares, ADSs or other securities, in cash or otherwise, (iii) demand the filing of a registration statement pursuant to a shareholder's agreement or otherwise, or (iv) publicly disclose the intention to make any offer, sale, pledge or disposition, or to enter into any transaction, swap, hedge or other arrangement, without, in each case, the prior written consent of the representatives for a period of 90 days after the date of this prospectus.

However, in the event that either (1) during the last 17 days of the 90-day restricted period, we release earnings results or material news or a material event relating to us occurs or (2) prior to the expiration of the 90-day restricted period, we announce that we will release earnings results during the 16-day period beginning on the last day of the lock-up period, then in either case the expiration of the 90-day restricted period will be extended until the expiration of the 18-day period beginning on the date of the release of the earnings results or the occurrence of the material news or event, as applicable, unless the representatives waive, in writing, such an extension.

Please see [Underwriting](#) for additional information.

**Rule 144**

In general, under Rule 144 as currently in effect, a person who has beneficially owned our restricted securities for at least six months is entitled to sell the restricted securities without registration under the Securities Act, subject to certain restrictions. Persons who are our affiliates (including persons beneficially owning 10% or

## **Table of Contents**

more of our outstanding shares) may sell within any three-month period a number of restricted securities that does not exceed the greater of the following:

1% of the number of our common shares then outstanding, in the form of ADSs or otherwise, which will equal approximately shares immediately after this offering, or if the underwriters exercise their option to purchase additional ADSs in full; and

the average weekly trading volume of our ADSs on the Nasdaq Global Market during the four calendar weeks preceding the date on which notice of the sale is filed with the SEC.

Such sales are also subject to manner-of-sale provisions, notice requirements and the availability of current public information about us. Persons who are not our affiliates and have beneficially owned our restricted securities for more than six months but not more than one year may sell the restricted securities without registration under the Securities Act subject to the availability of current public information about us. Persons who are not our affiliates and have beneficially owned our restricted securities for more than one year may freely sell the restricted securities without registration under the Securities Act.

### **Rule 701**

In general, under Rule 701 of the Securities Act as currently in effect, each of our employees, consultants or advisors who purchases our common shares from us in connection with a compensatory stock plan or other written agreement executed prior to the completion of this offering is eligible to resell such common shares in reliance on Rule 144, but without compliance with some of the restrictions, including the holding period, contained in Rule 144.

### **Registration Rights**

Certain holders of our common shares or their transferees are entitled to request that we register their shares under the Securities Act, following the expiration of the lock-up agreements described above. See Description of Share Capital Registration Rights.

**Table of Contents****TAXATION**

*The following summary of the material Cayman Islands, PRC and United States federal income tax consequences of an investment in our ADSs or common shares is based upon laws and relevant interpretations thereof in effect as of the date of this registration statement, all of which are subject to change. This summary does not deal with all possible tax consequences relating to an investment in our ADSs or common shares, such as the tax consequences under state, local and other tax laws. To the extent that the discussion relates to matters of Cayman Islands tax law, it represents the opinion of Maples and Calder, our Cayman Islands counsel.*

**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.

**People's Republic of China Taxation**

The EIT Law was enacted on March 16, 2007 and 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 by 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. 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.

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 Enterprises, 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

**Table of Contents**

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 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.

**Material United States Federal Income Tax Consequences**

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

an individual citizen or resident of the United States;

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

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

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

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

a dealer in securities or currencies;

a financial institution;

a regulated investment company;

a real estate investment trust;

an insurance company;

a tax-exempt organization;

## Edgar Filing: VISIONCHINA MEDIA INC. - Form F-1

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.

---

## **Table of Contents**

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

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

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

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

### *ADSs*

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

### *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 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 will be includable in your gross income as ordinary income on the day actually or constructively received by you, in the case of the common shares, or by the depository, in the case of ADSs. Such dividends will not be eligible for the dividends received deduction allowed to corporations under the Code.

With respect to non-corporate United States Holders, certain dividends received in taxable years beginning before January 1, 2011 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 paid by that corporation on shares (or ADSs backed by such shares) that are readily tradable on an established securities market in the United States. U.S. 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

**Table of Contents**

for the benefits of certain income tax treaties with the United States. In the event that we are deemed to be a Chinese resident enterprise under the PRC tax law, we may be eligible for the benefits of the income tax treaty between the United States and the PRC, and if we are eligible for such benefits, dividends we pay on our common shares, regardless of whether such shares are represented by ADSs, would be subject to the reduced rates of taxation. Non-corporate United States Holders that do not meet a minimum holding period requirement during which they are not protected from the risk of loss or that elect to treat the dividend income as investment income pursuant to Section 163(d)(4) of the Code will not be eligible for the reduced rates of taxation regardless of our status as a qualified foreign corporation. In addition, the rate reduction will not apply to dividends if the recipient of a dividend is obligated to make related payments with respect to positions in substantially similar or related property. This disallowance applies even if the minimum holding period has been met. You should consult your own tax advisors regarding the application of these rules to your particular circumstances.

In the event that we are deemed to be a Chinese 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 under 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, it will be treated first as a tax-free return of your tax basis in your ADSs or common shares, and to the extent the amount of the distribution exceeds your tax basis, the excess will be taxed as capital gain. 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 reported as a dividend (as discussed above).

*Passive Foreign Investment Company*

Although our status as a passive foreign investment company, or PFIC, is a legal determination, based upon the past and projected composition of our income and valuation of our assets, including goodwill, we do not believe that we were a PFIC for 2007, and we do not expect to become one in the future, although there can be no assurance in this regard. Because the determination of PFIC status requires extensive factual investigation, including ascertaining the fair market value of our assets on a quarterly basis and the character of each item of income we earn, this determination, although ultimately legal in nature, is beyond the scope of legal counsel's role and, accordingly, our U.S. counsel expresses no opinion with respect to our PFIC status and also expresses no opinion with respect to our expectations contained in this paragraph. In general, we will be a PFIC for any taxable year in which:

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

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

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

---

**Table of Contents**

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. If we are a PFIC for any taxable year during which you hold our ADSs or common shares, you will be subject to special tax rules discussed below.

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

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

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

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

In addition, non-corporate United States Holders will not be eligible for reduced rates of taxation on any dividends received from us in taxable years beginning prior to January 1, 2011, 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 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 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 each 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.

## **Table of Contents**

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.

Alternatively, you can sometimes avoid the rules described above with respect to the stock you own in a PFIC by electing to treat such 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, we may be eligible for the benefits of the income tax treaty between the United States and the PRC. Under that treaty, if any PRC tax was to be imposed on any gain from the disposition of the ADSs or common shares, the gain may be treated as PRC-source income. You are urged to consult your tax advisors regarding the tax consequences if a foreign withholding tax is imposed on a disposition of 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.

**Table of Contents****UNDERWRITING**

Under the terms and subject to the conditions contained in an underwriting agreement dated the date of this prospectus, the underwriters named below, for whom Credit Suisse Securities (USA) LLC, Morgan Stanley & Co. International plc and Merrill Lynch, Pierce, Fenner & Smith Incorporated are acting as representatives, have severally agreed to purchase, and we and the selling shareholders have agreed to sell to them, the number of ADSs indicated in the table below. Credit Suisse Securities (USA) LLC's address is Eleven Madison Avenue, New York, New York 10010-3629, U.S.A.; Morgan Stanley & Co. International plc's address is 25 Cabot Square, Canary Wharf, London E14 4QA, United Kingdom; and Merrill Lynch, Pierce, Fenner & Smith Incorporated's address is 4 World Financial Center, 250 Vesey Street, New York, New York 10080, U.S.A.

Underwriters	Number of ADSs
Credit Suisse Securities (USA) LLC	
Morgan Stanley & Co. International plc	
Merrill Lynch, Pierce, Fenner & Smith Incorporated	
Oppenheimer & Co., Inc.	
Susquehanna Financial Group, LLLP	
Total	

The underwriters are offering the ADSs subject to their acceptance of the ADSs from us and the selling shareholders. The underwriting agreement provides that the obligations of the several underwriters to pay for and accept delivery of the ADSs offered by this prospectus are subject to the approval of certain legal matters by their counsel and to certain other conditions. The underwriting agreement also provides that if an underwriter defaults, the purchase commitments of non-defaulting underwriters may be increased or the offering may be terminated. The underwriters are obligated to take and pay for all of the ADSs offered by this prospectus if any such ADSs are taken. However, the underwriters are not required to take or pay for the ADSs covered by the underwriters' over-allotment option described below.

We and the selling shareholders have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act, or to contribute to payments the underwriters may be required to make in respect of those liabilities.

The representatives have advised us that the underwriters propose to initially offer the ADSs to the public at the public offering price set forth on the cover page of this prospectus and to dealers at that price less a concession not in excess of US\$            per ADS. The underwriters may allow, and the dealers may re-allow, a discount not in excess of US\$            per ADS to other dealers. If all of the ADSs are not sold at the public offering price, the representatives may change the concession and discount and the other selling terms.

The following table shows the per ADS and total underwriting discounts and commissions to be paid to the underwriters by us and the selling shareholders in connection with this offering. The amounts in the following table are shown assuming both no exercise and full exercise of the underwriters' over-allotment option.

	Per ADS		Total	
	Without Over-Allotment	With Over-Allotment	Without Over-Allotment	With Over-Allotment
Underwriting discounts and commissions paid by us	US\$	US\$	US\$	US\$
Expenses payable by us	US\$	US\$	US\$	US\$
Underwriting discounts and commissions paid by selling shareholders	US\$	US\$	US\$	US\$
Expenses payable by selling shareholders	US\$	US\$	US\$	US\$

**Table of Contents**

We and the selling shareholders have granted to the underwriters options, exercisable for 30 days from the date of this prospectus, to purchase up to an aggregate of 1,200,000 additional ADSs at the public offering price set forth on the cover page of this prospectus, less underwriting discounts and commissions. The underwriters may exercise these options solely for the purpose of covering over-allotments, if any, made in connection with the offering of the ADSs offered by this prospectus. To the extent the options are exercised, each underwriter will become obligated, subject to certain conditions, to purchase a number of additional ADSs approximately proportionate to each underwriter's initial amount reflected in the table above.

We have agreed that we will not, directly or indirectly, (i) offer, issue, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend or otherwise transfer or dispose of, directly or indirectly, any of our common shares or ADSs or securities convertible into or exchangeable or exercisable for any of our common shares or ADSs or any of our securities that are substantially similar to our common shares or ADSs, (ii) enter into a transaction that would have the same effect, or enter into any swap, hedge or other arrangement that transfers, in whole or in part, any of the economic consequences of ownership of our common shares or ADSs or any of our securities that are substantially similar to our common shares or ADSs, whether any of these transactions are to be settled by delivery of our common shares, ADSs or such other securities, in cash or otherwise, (iii) establish or increase a put equivalent position or liquidate or decrease a call equivalent position in our common shares or ADSs or any of our securities that are substantially similar to our common shares or ADSs, (iv) file with the SEC a registration statement under the Securities Act relating to any of our common shares or ADSs or securities convertible into or exchangeable or exercisable for any of our common shares or ADSs or any of our securities that are substantially similar to our common shares or ADSs, or (v) publicly disclose the intention to make any offer, sale, pledge or disposition, or to enter into any transaction, swap, hedge or other arrangement, without, in each case, the prior written consent of the representatives for a period of 90 days after the date of this prospectus. However, in the event that either (1) during the last 17 days of the 90-day restricted period, we release earnings results or material news or a material event relating to us occurs or (2) prior to the expiration of the 90-day restricted period, we announce that we will release earnings results during the 16-day period beginning on the last day of the 90-day restricted period, then in either case the expiration of the 90-day restricted period will be extended until the expiration of the 18-day period beginning on the date of the release of the earnings results or the occurrence of the material news or event, as applicable, unless the representatives waive, in writing, such an extension.

The selling shareholders have agreed that they will not directly or indirectly, (i) offer, sell, contract to sell, pledge or otherwise transfer or dispose of, directly or indirectly, any of our common shares or ADSs or securities convertible into or exchangeable or exercisable for any of our common shares or ADSs, enter into a transaction that would have the same effect, (ii) enter into any swap, hedge or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of our common shares or ADSs, whether any of these transactions are to be settled by delivery of our common shares, ADSs or other securities, in cash or otherwise, (iii) demand the filing of a registration statement pursuant to a shareholder's agreement or otherwise, or (iv) publicly disclose the intention to make any offer, sale, pledge or disposition, or to enter into any transaction, swap, hedge or other arrangement, without, in each case, the prior written consent of the representatives for a period of 90 days after the date of this prospectus. However, in the event that either (1) during the last 17 days of the 90-day restricted period, we release earnings results or material news or a material event relating to us occurs or (2) prior to the expiration of the 90-day restricted period, we announce that we will release earnings results during the 16-day period beginning on the last day of the lock-up period, then in either case the expiration of the 90-day restricted period will be extended until the expiration of the 18-day period beginning on the date of the release of the earnings results or the occurrence of the material news or event, as applicable, unless the representatives waive, in writing, such an extension.

The representatives have no present intent or understandings, tacit or explicit, to release the securities subject to the above restriction before the expiration of the 90-day restricted period described above.

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

## **Table of Contents**

The underwriters do not expect to sell more than 5% of the ADSs in the aggregate to accounts over which they exercise discretionary authority.

Until the distribution of the ADSs is completed, SEC rules may limit underwriters and selling group members from bidding for and purchasing our ADSs. However, the representatives, or any person acting for them, on behalf of the underwriters, may engage in transactions that stabilize the price of the ADSs, such as bids or purchases to peg, fix or maintain that price.

In connection with the offering, the underwriters may purchase and sell our ADSs in the open market. These transactions may include short sales, purchases on the open market to cover positions created by short sales and stabilizing transactions. Short sales involve the sale by the underwriters of a greater number of ADSs than they are required to purchase in the offering. Covered short sales are sales made in an amount not greater than the underwriters' option to purchase additional ADSs in the offering. The underwriters may close out any covered short position by either exercising their over-allotment option or purchasing ADSs in the open market. In determining the source of ADSs to close out the covered short position, the underwriters will consider, among other things, the price of ADSs available for purchase in the open market as compared to the price at which they may purchase additional ADSs pursuant to the over-allotment option. Naked short sales are sales in excess of the over-allotment option. The underwriters must close out any naked short position by purchasing ADSs in the open market. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of our ADSs in the open market after pricing that could adversely affect investors who purchase in the offering. Stabilizing transactions consist of various bids for, or purchases of, ADSs made by the underwriters in the open market prior to the completion of the offering.

The underwriters may also impose a penalty bid. This occurs when a particular underwriter repays to the underwriters a portion of the underwriting discount received by it because the representatives have repurchased ADSs sold by or for the account of such underwriter in stabilizing or short covering transactions.

Purchases to cover a short position and stabilizing transactions may have the effect of preventing or retarding a decline in the market price of the ADSs, and together with the imposition of the penalty bid, may stabilize, maintain or otherwise affect the market price of the ADSs. As a result, the price of the ADSs may be higher than the price that otherwise might exist in the open market. If these activities are commenced, they are required to be conducted in accordance with applicable laws and regulations, and may be discontinued at any time. These transactions may be effected on the Nasdaq Global Market, in the over-the-counter market or otherwise.

Neither we nor any of the underwriters makes any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the ADSs. In addition, neither we nor any of the underwriters makes any representation that the representatives will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

In connection with the offering, certain of the underwriters or securities dealers may distribute prospectuses by electronic means, such as e-mail. In addition, the representatives will be facilitating Internet distribution for this offering to certain of their respective Internet subscription customers. An electronic prospectus may be made available on the Internet web site maintained by one or more of the representatives. Other than the prospectus in electronic format, the information contained on, or that may be accessed through, the web site of any of the representatives is not part of this prospectus.

## **Selling Restrictions**

### *European Economic Area*

In relation to each member state of the European Economic Area which has implemented the Prospectus Directive (each, a relevant member state), with effect from and including the date on which the Prospectus

---

**Table of Contents**

Directive is implemented in that relevant member state (the relevant implementation date ), no offer of the ADSs has been made or will be made to the public in that relevant member state prior to the publication of a prospectus in relation to the ADSs which has been approved by the competent authority in that relevant member state or, where appropriate, approved in another relevant member state and notified to the competent authority in that relevant member state, all in accordance with the Prospectus Directive, except that, with effect from and including the relevant implementation date, an offer of the ADSs to the public may be made in that relevant member state at any time:

(a) to legal entities which are authorized or regulated to operate in the financial markets or, if not authorized or regulated, whose corporate purpose is solely to invest in securities;

(b) to any legal entity which has two or more of (i) an average of at least 250 employees during the last financial year; (ii) a total balance sheet of more than 43,000,000; and (iii) an annual net turnover of more than 50,000,000, as shown in its last annual or consolidated accounts; or

(c) in any other circumstances which do not require the publication by us of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of the above, the expression an offer of any ADSs to the public in relation to any ADSs in any relevant member state means the communication in any form and by any means of sufficient information on the terms of the offer and the ADSs to be offered so as to enable an investor to decide to purchase or subscribe for the ADSs, as the same may be varied in that relevant member state by any measure implementing the Prospectus Directive in that relevant member state and the expression Prospective Directive means Directive 2003/71/EC and includes any relevant implementing measure in each relevant member state.

*United Kingdom*

No offer of ADSs has been made or will be made to the public in the United Kingdom within the meaning of Section 102B of the Financial Services and Markets Act 2000, as amended (the FSMA ), except to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities or otherwise in circumstances which do not require the publication by us of a prospectus pursuant to the Prospectus Rules of the Financial Services Authority. Each underwriter (i) has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any ADSs to persons who have professional experience in matters relating to investing falling within Article 19(5) of the Financial Services and Market Act 2000 (Financial Promotion) Order 2005 or in circumstances in which Section 21 of the FSMA does not apply to us; and (ii) has complied with and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the ADSs in, from or otherwise involving the United Kingdom.

*Japan*

The ADSs have not been and will not be registered under the Securities and Exchange Law of Japan, or the Securities and Exchange Law, and ADSs will not be offered or sold, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to a resident of Japan, except pursuant to any exemption from the registration requirements of, and otherwise in compliance with, the Securities and Exchange Law and any other applicable laws, regulations and ministerial guidelines of Japan.

## **Table of Contents**

### *Hong Kong*

The ADSs may not be offered or sold by means of any document other than (i) in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap.32, Laws of Hong Kong), or (ii) to professional investors within the meaning of the Securities and Futures Ordinance (Cap.571, Laws of Hong Kong) and any rules made thereunder, or (iii) in other circumstances which do not result in the document being a prospectus within the meaning of the Companies Ordinance (Cap.32, Laws of Hong Kong), and no advertisement, invitation or document relating to the ADSs may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to ADSs which are or are intended to be disposed of only to persons outside Hong Kong or only to professional investors within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder.

### *Singapore*

This prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this prospectus and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the ADSs may not be circulated or distributed, nor may the ADSs be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the SFA), (ii) to a relevant person pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

### *Cayman Islands*

This prospectus does not constitute an invitation or offer to the public in the Cayman Islands of the ADSs or common shares, whether by way of sale or subscription. The underwriters have not offered or sold, and will not offer or sell, directly or indirectly, any ADSs or common shares in the Cayman Islands.

### *People's Republic of China*

This prospectus has not been and will not be circulated or distributed in the PRC, and ADSs may not be offered or sold, and will not be offered or sold to any person for re-offering or resale, directly or indirectly, to any resident of the PRC except pursuant to applicable laws and regulations of the PRC.

### *United Arab Emirates*

This prospectus is not intended to constitute an offer, sale or delivery of shares or other securities under the laws of the United Arab Emirates, or the UAE. The ADSs have not been and will not be registered under Federal Law No. 4 of 2000 Concerning the Emirates Securities and Commodities Authority and the Emirates Security and Commodity Exchange, or with the UAE Central Bank, the Dubai Financial Market, the Abu Dhabi Securities Market or with any other UAE exchange.

The offering, the ADSs and interests therein have not been approved or licensed by the UAE Central Bank or any other relevant licensing authorities in the UAE, and do not constitute a public offer of securities in the UAE in accordance with the Commercial Companies Law, Federal Law No. 8 of 1984 (as amended) or otherwise.

In relation to its use in the UAE, this prospectus is strictly private and confidential and is being distributed to a limited number of investors and must not be provided to any person other than the original recipient, and may not be reproduced or used for any other purpose. The interests in the ADSs may not be offered or sold directly or indirectly to the public in the UAE.

## **Table of Contents**

### *Kingdom of Bahrain*

The offering is restricted in the Kingdom of Bahrain to banks, financial institutions and professional investors and any person receiving this prospectus in the Kingdom of Bahrain and not falling within those categories is ineligible to purchase the ADSs.

### *State of Kuwait*

The ADSs have not been authorized or licensed for offering, marketing or sale in the State of Kuwait. The distribution of this prospectus and the offering and sale of the ADSs in the State of Kuwait is restricted by law unless a license is obtained from the Kuwait Ministry of Commerce and Industry in accordance with Law 31 of 1990. Persons into whose possession this prospectus comes are required by us and the underwriters to inform themselves about and to observe such restrictions. Investors in the State of Kuwait who approach us or any of the underwriters to obtain copies of this prospectus are required by us and the underwriters to keep such prospectus confidential and not to make copies thereof or distribute the same to any other person and are also required to observe the restrictions provided for in all jurisdictions with respect to offering, marketing and the sale of the ADSs.

### *Kingdom of Saudi Arabia*

No action has been or will be taken in the Kingdom of Saudi Arabia that would permit a public offering or private placement of the ADSs in the Kingdom of Saudi Arabia, or possession or distribution of any offering materials in relation thereto. The ADSs may only be offered and sold in the Kingdom of Saudi Arabia in accordance with Part 5 (Exempt Offers) of the Offers of Securities Regulations dated 20/8/1425 AH corresponding to 4/10/2004 (the Regulations) and, in accordance with Part 5 (Exempt Offers) Article 17(a)(3) of the Regulations, the ADSs will be offered to no more than 60 offerees in the Kingdom of Saudi Arabia with each such offeree paying an amount not less than Saudi Riyals one million or its equivalent. Investors are informed that Article 20 of the Regulations places restrictions on secondary market activity with respect to the ADSs. Any resale or other transfer, or attempted resale or other transfer, made other than in compliance with the above-stated restrictions shall not be recognized by us.

### *General*

No action may be taken in any jurisdiction other than the United States that would permit a public offering of the ADSs or the possession, circulation or distribution of this prospectus in any jurisdiction where action for that purpose is required. Accordingly, the ADSs may not be offered or sold, directly or indirectly, and neither this prospectus nor any other offering material or advertisements in connection with the ADSs may be distributed or published in or from any country or jurisdiction except under circumstances that will result in compliance with any applicable rules and regulations of any such country or jurisdiction.

Certain underwriters and their affiliates have, from time to time, provided, and may in the future provide, investment banking and other services to us or our officers and directors for which they have received or will receive customary fees and commissions.

---

**Table of Contents****EXPENSES RELATING TO THIS OFFERING**

Set forth below is an itemization of the total expenses, excluding underwriting discounts and commissions, that we expect to incur in connection with this offering. With the exception of the SEC registration fee and the Financial Industry Regulatory Authority, Inc., or FINRA, filing fee, all amounts are estimates.

SEC Registration Fee	US\$ 6,929
FINRA Filing Fee	US\$ 18,132
Printing Expenses	US\$
Legal Fees and Expenses	US\$
Accounting Fees and Expenses	US\$
Miscellaneous	US\$
Total	US\$

---

**Table of Contents**

**LEGAL MATTERS**

The validity of the ADSs and certain other legal matters as to U.S. federal and New York law in connection with this offering will be passed upon for us by Simpson Thacher & Bartlett LLP. Certain legal matters as to U.S. federal securities and New York state law in connection with this offering will be passed upon for the underwriters by Sullivan & Cromwell LLP. The validity of the common shares represented by the ADSs offered in this offering will be passed upon for us by Maples and Calder. Legal matters as to PRC law will be passed upon for us by Grandall Legal Group and for the underwriters by Global Law Office. Simpson Thacher & Bartlett LLP may rely upon Maples and Calder with respect to matters governed by Cayman Islands law and Grandall Legal Group with respect to matters governed by PRC law. Sullivan & Cromwell LLP may rely upon Global Law Office with respect to matters governed by PRC law.

**EXPERTS**

The consolidated financial statements as of December 31, 2006 and 2007, and for the period from April 8, 2005 (date of inception) to December 31, 2005 and for the years ended December 31, 2006 and 2007, and related financial statement schedule included in this prospectus have been audited by Deloitte Touche Tohmatsu CPA Ltd., an independent registered public accounting firm, as stated in their report appearing herein, and are included in reliance upon report of such firm given upon their authority as experts in accounting and auditing.

The office of Deloitte Touche Tohmatsu CPA Ltd. is located at 13/F, China Resources Building, 5001 Shennan Road East, Shenzhen 518010, China.

The statements included in this prospectus under the captions Prospectus Summary, Risk Factors Risks Related to Our Company and Our Industry, Risk Factors Risks Related to Our Corporate Structure, Risk Factors Risks Related to Doing Business in China, Enforceability of Civil Liabilities, Our Corporate Structure, Management's Discussion and Analysis of Financial Condition and Results of Operations, Business and Regulation, to the extent they constitute matters of PRC law, have been reviewed and confirmed by Grandall Legal Group, our PRC counsel, as experts in such matters, and are included in this prospectus in reliance upon such review and confirmation. The offices of Grandall Legal Group are located at 31st Floor, Nanzheng Building, No. 580, Nanjing W. Road, Shanghai 200041, People's Republic of China.

**WHERE YOU CAN FIND ADDITIONAL INFORMATION**

We have filed with the SEC a registration statement on Form F-1, including relevant exhibits and schedules under the Securities Act with respect to underlying common shares represented by the ADSs, to be sold in this offering. This prospectus, which constitutes a part of the registration statement, does not contain all of the information contained in the registration statement. You should read the registration statement on Form F-1 and its exhibits and schedules for further information with respect to us and our ADSs.

We are subject to periodic reporting and other informational requirements of the Securities Exchange Act of 1934, as amended, as applicable to foreign private issuers. Accordingly, we are required to file reports, including annual reports on Form 20-F, and other information with the SEC. As a foreign private issuer, we are exempt from the rules of the Exchange Act prescribing the furnishing and content of proxy statements to shareholders. All information filed with the SEC can be inspected and copied at the public reference facilities maintained by the SEC at 100 F. Street, N.E., Washington, D.C. 20549. You can request copies of these documents, upon payment of a duplicating fee, by writing to the SEC. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference rooms. You may also obtain additional information over the Internet at the SEC's website at [www.sec.gov](http://www.sec.gov).

---

**Table of Contents**

**VISIONCHINA MEDIA INC.**

	<b>PAGE</b>
<u>REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM</u>	F-2
<u>CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2006 AND 2007</u>	F-3
<u>CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE PERIOD FROM APRIL 8, 2005 (DATE OF INCEPTION) TO DECEMBER 31, 2005 AND FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2007</u>	F-4
<u>CONSOLIDATED STATEMENTS OF CHANGES OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME FOR THE PERIOD FROM APRIL 8, 2005 (DATE OF INCEPTION) TO DECEMBER 31, 2005 AND FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2007</u>	F-5
<u>CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE PERIOD FROM APRIL 8, 2005 (DATE OF INCEPTION) TO DECEMBER 31, 2005 AND FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2007</u>	F-6
<u>NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD FROM APRIL 8, 2005 (DATE OF INCEPTION) TO DECEMBER 31, 2005 AND FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2007</u>	F-7
<u>CONDENSED FINANCIAL INFORMATION OF REGISTRANT SCHEDULE I</u>	F-29

**Table of Contents**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

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

We have audited the accompanying consolidated balance sheets of VisionChina Media Inc. and its subsidiary and variable interest entity (the Company ) as of December 31, 2006 and 2007, the related consolidated statements of operations, shareholders' equity and comprehensive income, and cash flows for the period from April 8, 2005 (date of inception) to December 31, 2005 and for the years ended December 31, 2006 and 2007, and related financial statement schedule included in 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 these 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. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing the audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 referred to above present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2006 and 2007, and the results of their operations and their cash flows for the period from April 8, 2005 (date of inception) to December 31, 2005 and for the years ended December 31, 2006 and 2007 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects, the information set forth therein.

/s/ Deloitte Touche Tohmatsu CPA Ltd.

Shenzhen, China

March 31, 2008

**Table of Contents****VISIONCHINA MEDIA INC.****CONSOLIDATED BALANCE SHEETS**

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

	Notes	December 31, 2006	December 31, 2007
<b>ASSETS</b>			
<b>Current Assets:</b>			
Cash and cash equivalents		5,215,693	131,139,659
Accounts receivable, net of allowance for doubtful accounts of \$73,354 and nil as of December 31, 2006 and 2007, respectively		832,345	13,256,450
Amounts due from related parties	15	1,532,696	3,632,864
Prepaid expenses and other current assets	3	3,284,326	9,683,059
Deferred tax assets, net	11		332,386
<b>Total current assets</b>		<b>10,865,060</b>	<b>158,044,418</b>
<b>Non-current Assets:</b>			
Fixed assets, net	4	442,640	7,709,204
Investments under equity method	5	3,747,493	6,714,853
Other investments	6	1,988,583	2,128,732
Long-term prepaid expenses	3		703,069
<b>Total non-current assets</b>		<b>6,178,716</b>	<b>17,255,858</b>
<b>TOTAL ASSETS</b>		<b>17,043,776</b>	<b>175,300,276</b>
<b>LIABILITIES, MEZZANINE EQUITY AND SHAREHOLDERS EQUITY</b>			
<b>Current Liabilities:</b>			
Accounts payable		575,520	4,236,695
Amounts due to related parties	15	185,409	327,532
Accrued expenses and other current liabilities	7	480,854	6,054,552
<b>Total current liabilities</b>		<b>1,241,783</b>	<b>10,618,779</b>
Commitments	13		
Minority interest			652,678
<b>Mezzanine equity</b>			
Series A convertible redeemable preferred shares (\$0.0001 par value; 14,250,000 shares authorized, issued and outstanding as of December 31, 2006 (liquidation value: \$21,375,000))	8	15,220,327	
<b>Shareholders equity</b>			
Common shares (\$0.0001 par value; 50,000,000 and 200,000,000 shares authorized; 22,000,000 and 68,386,838 shares issued and outstanding as of December 31, 2006 and 2007, respectively)	9	2,200	6,839
Additional paid-in capital		6,136,689	163,820,443
Accumulated deficit		(6,068,750)	(3,300,654)
Accumulated other comprehensive income		511,527	3,502,191
<b>Total shareholders equity</b>		<b>581,666</b>	<b>164,028,819</b>
<b>TOTAL LIABILITIES, MEZZANINE EQUITY AND SHAREHOLDERS EQUITY</b>		<b>17,043,776</b>	<b>175,300,276</b>

Edgar Filing: VISIONCHINA MEDIA INC. - Form F-1

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

F-3

**Table of Contents****VISIONCHINA MEDIA INC.****CONSOLIDATED STATEMENT OF OPERATIONS**

(Amounts in U.S. dollars ( US\$ ), except number of shares and per share data)

	Notes	For the period from April 8, 2005 (date of inception) to December 31, 2005	For the year ended December 31, 2006	2007
<b>Revenues:</b>				
Advertising service revenue			2,033,284	27,489,391
Advertising equipment revenue		290,521	1,839,598	1,896,200
<b>Total revenues:</b>		290,521	3,872,882	29,385,591
<b>Cost of revenues:</b>				
Advertising service cost			3,967,081	12,801,957
Advertising equipment cost		261,504	1,639,895	1,583,325
<b>Total cost of revenues:</b>		261,504	5,606,976	14,385,282
<b>Gross profit (loss)</b>		29,017	(1,734,094)	15,000,309
<b>Operating expenses:</b>				
Selling and marketing		12,941	393,474	2,149,067
General and administrative		373,274	1,673,817	2,949,509
<b>Total operating expenses</b>		386,215	2,067,291	5,098,576
Government grant			125,953	
Loss from equity method investees		(104,475)	(469,841)	(1,262,273)
<b>Operating profit (loss)</b>		(461,673)	(4,145,273)	8,639,460
Interest income		45,264	98,873	505,888
Other expenses			(22,608)	(95,719)
<b>Net income (loss) before income taxes</b>		(416,409)	(4,069,008)	9,049,629
Income taxes	11			332,386
<b>Net income (loss) after income taxes</b>		(416,409)	(4,069,008)	9,382,015
Minority interest				11,343
<b>Net income (loss)</b>		(416,409)	(4,069,008)	9,393,358
Deemed dividend on convertible redeemable preferred shares			1,583,333	6,625,262
<b>Net income (loss) attributable to holders of common shares</b>		(416,409)	(5,652,341)	2,768,096
<b>Net income (loss) per share:</b>				
Basic		(0.02)	(0.26)	0.11
Diluted		(0.02)	(0.26)	0.11
<b>Shares used in computation of net income (loss) per share:</b>				

Edgar Filing: VISIONCHINA MEDIA INC. - Form F-1

Basic	22,000,000	22,000,000	24,709,522
Diluted	22,000,000	22,000,000	25,771,702
Share-based compensation expenses during the related periods included in:			
Cost of revenues		37,576	34,431
Selling and marketing expenses		5,374	135,722
General and administrative expenses		35,802	51,209

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

F-4

**Table of Contents****VISIONCHINA MEDIA INC.****CONSOLIDATED STATEMENTS OF CHANGES OF  
SHAREHOLDERS EQUITY AND COMPREHENSIVE INCOME**

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

	Common shares		Additional paid-in capital	Accumulated Deficit	Accumulated other comprehensive income	Total shareholders equity	Comprehensive Income (losses)
	Number	Amount					
Balance at April 8, 2005 (Date of inception)							
Issue of shares	22,000,000	2,200	6,039,001			6,041,201	
Deemed shareholder s contribution			18,936			18,936	
Cumulative translation adjustment					150,078	150,078	150,078
Net loss				(416,409)		(416,409)	(416,409)
							(266,331)
<b>Balance at December 31, 2005</b>	22,000,000	2,200	6,057,937	(416,409)	150,078	5,793,806	
Share-based compensation			78,752			78,752	
Cumulative translation adjustment					361,449	361,449	361,449
Net loss				(4,069,008)		(4,069,008)	(4,069,008)
							(3,707,559)
Deemed dividend on convertible redeemable preferred shares				(1,583,333)		(1,583,333)	
<b>Balance at December 31, 2006</b>	22,000,000	2,200	6,136,689	(6,068,750)	511,527	581,666	
Issuance of common shares pursuant to initial public offering	13,500,000	1,350	100,438,650			100,440,000	
Direct offering expenses			(3,725,432)			(3,725,432)	
Conversion of redeemable preferred shares to common shares	32,139,088	3,214	60,106,814			60,110,028	
Exercise of share options	747,750	75	642,360			642,435	
Share-based compensation			221,362			221,362	
Cumulative translation adjustment					2,990,664	2,990,664	2,990,664
Net income				9,393,358		9,393,358	9,393,358
							12,384,022
Deemed dividend on convertible redeemable preferred shares				(6,625,262)		(6,625,262)	
<b>Balance at December 31, 2007</b>	68,386,838	6,839	163,820,443	(3,300,654)	3,502,191	164,028,819	

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



**Table of Contents****VISIONCHINA MEDIA INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Amounts in U.S. dollars ( US\$ ), except number of shares and per share data)

	For the period from April 8, 2005 (date of inception) to December 31, 2005	For the year ended December 31, 2006	2007
<b>Cash flows from operating activities:</b>			
Net income (loss)	(416,409)	(4,069,008)	9,393,358
Adjustments to reconcile net loss to net cash used in operating activities:			
Allowance for doubtful accounts		72,146	
Depreciation and amortization	3,743	41,491	306,491
Loss from equity investees	104,475	469,841	1,262,273
Share-based compensation		78,752	221,362
Waiver of rental expenses by a former shareholder	18,936		
Deferred tax			(332,386)
Minority interest			(11,343)
Changes in operating assets and liabilities:			
Accounts receivables		(890,782)	(11,918,577)
Prepaid expenses and other current assets	(132,061)	(3,108,504)	(6,719,468)
Amounts due from related parties	(42,905)	(1,386,012)	(1,904,292)
Accounts payable	73,555	471,521	531,573
Accrued expenses and other current liabilities	94,976	376,816	3,028,758
Amounts due to related parties		117,970	141,712
<b>Net cash used in operating activities</b>	<b>(295,690)</b>	<b>(7,825,769)</b>	<b>(6,000,540)</b>
<b>Cash flows from investing activities:</b>			
Acquisition of fixed assets	(54,826)	(405,427)	(4,338,779)
Amounts due from related parties	(1,224,080)	1,259,525	
Investments in equity method investment	(2,003,667)	(2,274,386)	(3,854,500)
Other investments		(1,979,565)	
<b>Net cash used in investing activities</b>	<b>(3,282,573)</b>	<b>(3,399,853)</b>	<b>(8,193,279)</b>
<b>Cash flows from financing activities:</b>			
Proceeds from issuance of common shares, net of issuance cost	6,060,137		99,230,318
Proceeds from issuance of Series A convertible redeemable preferred shares, net of issuance cost		13,636,994	
Proceeds from issuance of Series B convertible redeemable preferred shares, net of issuance cost			38,264,439
Contributions from a minority shareholder of a subsidiary			685,439
Proceeds from exercise of share options			642,435
<b>Net cash provided by financing activities</b>	<b>6,060,137</b>	<b>13,636,994</b>	<b>138,822,631</b>
<b>Effect of changes in exchange rate</b>	<b>117,204</b>	<b>205,243</b>	<b>1,295,154</b>
<b>Net increase in cash and cash equivalents</b>	<b>2,599,078</b>	<b>2,616,615</b>	<b>125,923,966</b>

Edgar Filing: VISIONCHINA MEDIA INC. - Form F-1

Cash and cash equivalents at the beginning of the period/year		2,599,078	5,215,693
Cash and cash equivalents at the end of the period/year	2,599,078	5,215,693	131,139,659

Supplemental disclosure of cash flow information

Income taxes paid

Interest paid

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

F-6

---

**Table of Contents**

**VISIONCHINA MEDIA INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**(Amounts in U.S. dollars ( \$ ), except number of shares and per share data)**

**1. ORGANIZATION AND PRINCIPAL ACTIVITIES**

VisionChina Media Inc. (the Company) was incorporated under the laws of the Cayman Islands on January 27, 2006. The Company and its variable interest entities and subsidiaries (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 (Shenzhen) Co., Ltd. (CDTC, formerly known as China Digital Technology Consulting (Shenzhen) Co., Ltd.), which is a wholly owned company it established in the PRC on March 9, 2006. The Company does not conduct any substantive operations of its own, but conducts its primary business operations through CDTC's variable interest entity (VIE), China Digital Mobile Television Co., Ltd. (CDMTV) and CDMTV's subsidiaries and investees. CDMTV was incorporated under the laws of the PRC on April 8, 2005.

Chinese laws and regulations prohibit or restrict foreign ownership of media content and advertising business. To comply with these foreign ownership restrictions, the Group invests in ventures with local television stations and provides advertising services on its out-of-home digital television networks in the PRC through CDMTV, a PRC legal entity, which was established by co-founders of the Company. The paid-in capital of CDMTV was funded by the Company or CDTC through a loan extended to the co-founders. CDTC has entered into certain exclusive agreements with CDMTV, which obligate the Company to absorb a majority of the risk of loss from CDMTV's activities and entitle to receive a majority of its residual returns. In addition, the Company through CDTC has entered into certain agreements with the two individuals including a loan agreement for the paid-in capital of CDMTV described above, an option agreement to acquire the shareholding in CDMTV when permitted by the PRC laws, and a share pledge agreement for the shares in CDMTV held by the co-founders. The Company and CDTC hold all the variable interests of CDMTV, and the Company and CDTC have been determined to be the most closely associated with CDMTV. Therefore, the Company is primary beneficiary of CDMTV.

Based on these contractual arrangements, the Company believes that CDMTV should be considered as a Variable Interest Entity under FASB Interpretation No. 46R (FIN 46R), *Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51*, because the equity investors in CDMTV do not have the characteristics of a controlling financial interest and the Company through CDTC is the primary beneficiary of CDMTV. Accordingly, the Company believes that CDMTV should be consolidated under FIN 46R.

The contractual agreements described above provide for effective control of CDMTV to be transferred to the Company on March 30, 2006. The shareholders of CDMTV and the Company were the same with same percentage equity interest. There was no change in control or ownership interests as a result of this transaction. Since the transaction was accounted for as a reorganization under common control, the financial statements present the operation of CDMTV since inception on an as-if-pooled basis. Prior to the transaction, the Company and CDTC were shell companies with minimal assets and no liabilities.

On February 15, 2007, CDTC and CDMTV entered into a series of new agreements, which replaced the agreements entered into on March 30, 2006. These contractual arrangements continue to enable the Company to exercise effective control over CDMTV and its subsidiaries and receive substantially all of the economic benefits of CDMTV and its subsidiaries for an extended period of 25 years.

**Table of Contents****VISIONCHINA MEDIA INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Amounts in U.S. dollars ( \$ ), except number of shares and per share data)

The Group's consolidated assets do not include any collateral for CDMTV's obligations. The carrying amount of the total assets of CDMTV as of December 31, 2007 was \$73,144,561 and there was no pledge or collateral of its assets. Furthermore, creditors of CDMTV have no recourse to the general credit of CDTC which is the primary beneficiary of CDMTV.

As of December 31, 2007, subsidiaries and variable interest entities of the Company and CDMTV's subsidiaries include the following entities:

<b>Companies</b>	<b>Date of acquisition</b>	<b>Date of establishment</b>	<b>Place of establishment</b>	<b>Percentage of ownership</b>
<b><u>Subsidiary of the Company</u></b>				
CDTC	N/A	March 9, 2006	PRC	100%
<b><u>Variable interest entity of CDTC</u></b>				
CDMTV	(note)	April 8, 2005	PRC	100%
<b><u>Subsidiaries of CDMTV</u></b>				
Shenzhen Gaoqing Digital Television Investment Co., Ltd. ( Gaoqing Digital Television )	February 17, 2006	June 16, 2004	PRC	100%
Beijing Beiguang Media Mobile Television Advertising Co., Ltd. ( Beiguang Media )	N/A	December 18, 2006	PRC	100%
Beijing Hua Jingshi Media Advertising Co., Ltd. ( Beijing Hua Jingshi )	N/A	July 26, 2007	PRC	100%
Beijing Hua Meishi Advertising Co., Ltd. ( Beijing Hua Meishi )	N/A	May 25, 2007	PRC	100%
Nanjing Hua Meishi Advertising Co., Ltd. ( Nanjing Hua Meishi )	N/A	July 16, 2007	PRC	100%
Shenzhen Hua Meishi Advertising Co., Ltd. ( Shenzhen Hua Meishi )	N/A	June 29, 2007	PRC	100%
Shenzhen Huashixin Culture Media Co., Ltd. ( Shenzhen Huashixin )	N/A	September 3, 2007	PRC	100%
Nanjing Media Culture Co., Ltd. ( Nanjing Media Culture )	N/A	March 28, 2007	PRC	100%
Guangzhou Jiaojian Multimedia Information Technology Co., Ltd. ( Guangzhou Jiaojian )	N/A	October 8, 2007	PRC	50%

Note: Through a series of recapitalization, CDMTV becomes a variable interest entity of CDTC

**Table of Contents****VISIONCHINA MEDIA INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Amounts in U.S. dollars ( \$ ), except number of shares and per share data)

As of December 31, 2007, the CDMTV's equity method investees, include the following entities:

Investee companies	Date of acquisition	Date of establishment	Place of establishment	Percentage of ownership
Chengdu Mobile Digital Television Company Limited ( Chengdu Mobile )	N/A	April 29, 2005	PRC	49%
Haerbin China Mobile Television Company Limited ( Haerbin Mobile )	N/A	November 10, 2005	PRC	49%
Jilin Mobile Television Company Limited ( Jilin Mobile )	N/A	November 8, 2005	PRC	49%
Dalian Mobile Digital Television Company Limited ( Dalian Mobile )	N/A	February 20, 2006	PRC	49%
Henan China Digital Mobile Television Company Limited ( Henan Mobile )	N/A	July 4, 2006	PRC	49%
Hubei China Digital Television Company Limited ( Hubei Mobile )	N/A	July 26, 2006	PRC	49%
Suzhou China Digital Mobile Television Company Limited ( Suzhou Mobile )	N/A	February 17, 2007	PRC	49%
Changzhou China Digital Mobile Television Company Limited ( Changzhou Mobile )	N/A	March 19, 2007	PRC	49%
Ningbo China Digital Mobile Television Company Limited ( Ningbo Mobile )	N/A	April 5, 2007	PRC	49%

The CDMTV's equity method investees have been separately established with 9 separate parties for the purpose of engaging in provision of digital mobile television advertising services in the PRC. CDMTV contributed cash and another investor contributed advertising broadcasting right into the equity method investees for 49% and 51% equity interest, respectively.

On February 17, 2006, CDMTV acquired 51% equity interest in Gaoqing Digital Television for cash consideration of \$1,318,798. On March 9, 2006, CDMTV acquired the remaining 49% equity interest in Gaoqing Digital Television for cash consideration of \$1,280,623. Prior to the acquisition, Gaoqing Digital Television had no business activities and its major assets were cash of \$1,055,652 and 25% equity interests in Shenzhen Mobile Television Company Limited ( Shenzhen Mobile ) which has been recorded under cost method (see note 6). Accordingly, this transaction has been accounted for as an acquisition of assets.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES***(a) Basis of presentation*

The consolidated financial statements of the Company have been prepared in accordance with the accounting principles generally accepted in the United States of America ( US GAAP ).

*(b) Principles of Consolidation*

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



**Table of Contents**

**VISIONCHINA MEDIA INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Amounts in U.S. dollars ( \$ ), except number of shares and per share data)**

*(c) 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 from other competitors; changes in key suppliers; changes in certain strategic relationships; regulatory or other PRC related factors; and risks associated with the Group's ability to attract and retain employees necessary to support its growth; and general risks associated with the advertising industry.

*(d) 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.

*(e) Fixed assets, net*

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

Depreciation and amortization is computed on a straight-line basis over the following estimated useful lives:

Computers and office equipment	5 years
Media display equipment	5 years
Motor vehicles	5 years
Leasehold improvements	lesser of lease terms or the estimated useful lives of the assets

*(f) Investment under equity method*

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

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

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

*(g) Other investments*

Edgar Filing: VISIONCHINA MEDIA INC. - Form F-1

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

F-10

---

**Table of Contents**

**VISIONCHINA MEDIA INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Amounts in U.S. dollars ( \$ ), except number of shares and per share data)**

distributions of earnings from investees, if any, are included in income when declared. We periodically evaluate the carrying value of our investments accounted for under the cost method of accounting and any impairment is included in our consolidated statements of operations.

*(h) Impairment of long-lived assets*

The Group reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may no longer be recoverable. When these events occur, the Group measures impairment by comparing the carrying value of the long-lived assets to the estimated undiscounted future cash flows expected to result from the use of the assets and their eventual disposition. If the sum of the expected undiscounted cash flow is less than the carrying amount of the assets, the Group would recognize an impairment loss based on the fair value of the assets.

*(i) Revenue recognition*

*(1) Time-based advertising services*

For time-based advertising services, the Group recognizes revenues as the advertisements are aired over the contractual term based on the schedules agreed with the customer. Payments received in advance of services provided are recorded as customer deposits.

Deferred revenue is recorded when services are provided before the applicable revenue recognition criteria as required by SAB104 are fulfilled.

*(2) Barter transactions*

Periodically, the Group engages in barter transactions which are generally recorded at fair value. If such value is not determinable within reasonable limits, the transaction is recognized based on the carrying value of the product or services provided. The amount of revenues recognized for barter transactions was insignificant for each of the periods presented.

*(3) Equipment*

Revenues from sales of advertising equipment, which are from related parties, are recognized upon delivery, at which all four of the following criteria are met: (i) pervasive evidence that an arrangement exists; (ii) delivery of the products and/or services has occurred and risks and rewards of ownership have passed to the customer; (iii) the selling price is both fixed and determinable, and (iv) collection of the resulting receivable is reasonably assured.

Advertising equipment revenues are net of value-added tax incurred, which amounted to \$49,389, \$312,732 and \$322,354 for the period from April 8, 2005 (date of inception) to December 31, 2005, and the years ended December 31, 2006 and 2007, respectively.

*(j) Cost of revenues*

Cost of advertising services revenues consist primarily of media costs payable under exclusive advertising agreements, depreciation, business taxes and surcharges and other operating costs. Media cost are expensed as incurred.

**Table of Contents**

**VISIONCHINA MEDIA INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Amounts in U.S. dollars ( \$ ), except number of shares and per share data)**

The amount of business taxes and surcharges included in cost of advertising services totaled \$nil, \$39,940 and \$1,171,028 for the period from April 8, 2005 (date of inception) to December 31, 2005, and the years ended December 31, 2006 and 2007, respectively.

Cost of equipment revenues consists primarily of purchase cost of digital television displays and other related equipment.

*(k) Operating leases*

Leases where 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 statement of operations on a straight-line basis over the lease periods.

*(l) Foreign currency translation*

The functional and reporting currency of the Company is the United States dollar ( US dollar ). Monetary assets and liabilities denominated in currencies other than the US dollar are translated into the US dollar at the rates of exchange ruling at the balance sheet date. Transactions in currencies other than the US dollar during the year are converted into US dollar at the applicable rates of exchange prevailing at the first day of the month transactions occurred. Transaction gains and losses are recognized in the statements of operations.

The financial records of the Company's subsidiary and its variable interest entity are maintained in its local currency, the Renminbi ( RMB ), which is their functional currency. Assets and liabilities are translated at the exchange rates at the balance sheet date, equity accounts are translated at historical exchange rates and revenues, expenses, gains and losses are translated using the average rate for the period. Translation adjustments are reported as cumulative translation adjustments and are shown as a separate component of other comprehensive income (loss) in the statement of shareholders' equity (deficiency).

*(m) Net income (loss) per share*

Basic net income (loss) per share is computed by dividing net income (loss) attributable to holders of common shares by the weighted average number of common shares outstanding during the period/year. Diluted net income (loss) per common share reflects the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted into common shares. Common share equivalents are excluded from the computation in 2005 and 2006 as their effects would be antidilutive. Convertible redeemable preferred shares were excluded from the computation of diluted earnings per share in the years ended December 31, 2006 and 2007, as their effects would have been antidilutive. The company's dilutive securities consisted of outstanding share options and convertible redeemable preferred shares. As of December 31, 2007, the Company had outstanding share options amounted to 4,838,359. As of December 31, 2006, the Company had outstanding share options of 1,894,000 and 14,250,000 convertible redeemable preferred shares issued and outstanding. No diluted potential common share equivalents were outstanding as of December 31, 2005.

As a result of the reorganization (note 1), the outstanding common shares have been retroactively restated to 22,000,000 shares in the denominator for the period from April 8, 2005 (date of inception) to December 31, 2005 and for the year ended December 31, 2006 presented.

**Table of Contents****VISIONCHINA MEDIA INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Amounts in U.S. dollars ( \$ ), except number of shares and per share data)

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

	For the period from April 8, 2005 (date of inception) to December 31, 2005	For the year ended December 31, 2006	2007
<b>Numerator:</b>			
Net income (loss) attributable to common shareholders	\$ (416,409)	\$ (5,652,341)	\$ 2,768,096
<b>Denominator:</b>			
Weighted average number of shares outstanding-basic	22,000,000	22,000,000	24,709,522
Effect of dilutive securities-Share options			1,062,180
Weighted average number of shares used for diluted income (loss) per share	22,000,000	22,000,000	25,771,702
Basic income (loss) per share	(0.02)	(0.26)	0.11
Diluted income (loss) per share	(0.02)	(0.26)	0.11
<i>(n) Income taxes</i>			

The Group follows the liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial reporting and tax bases of assets and liabilities 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.

*(o) Share-based compensation*

Share-based payments to employees are measured based on the fair values of share option on the grant dates and recognized as compensation expense over the requisite service periods with a corresponding addition to paid-in capital.

Share awards issued to non-employees are measured at fair value at the earlier of the commitment date or the date the service is completed and recognized over the period the service is provided or as goods are received. The Group uses the Black-Scholes option pricing model to measure the value of options granted to non-employees and employees at each measurement date.

*(p) Comprehensive income (loss)*

Comprehensive income (loss) is defined as the change in equity of the Group during a period from transactions and other events and circumstances excluding transactions resulting from investments by owners and distributions to owners. Comprehensive income (loss) is reported in the statements of changes of shareholders' equity. Accumulated other comprehensive income of the Group represents the cumulative foreign currency translation adjustment and net income (loss) for the year.

*(q) Use of estimates*

Edgar Filing: VISIONCHINA MEDIA INC. - Form F-1

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

F-13

**Table of Contents**

**VISIONCHINA MEDIA INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Amounts in U.S. dollars ( \$ ), except number of shares and per share data)**

disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant accounting estimates reflected in the Group's consolidated financial statements include allowance for doubtful debts, valuation of deferred tax assets, useful lives of fixed assets and fair value of stock options.

*(r) Government grants*

Government grants include cash subsidies received from the PRC government by the operating subsidiaries of the Company. Such subsidies are generally provided as incentives from the local government to encourage the expansion of local businesses. Government grants are recognized when received and all the conditions specified in the grant have been met.

*(s) Concentration of Risks*

*Concentration of Credit Risk*

Financial instruments that potentially subject the Company to significant concentration of credit risk consist primarily of cash and cash equivalents and accounts receivable. As of December 31, 2006 and 2007, substantially all of the Group's cash and cash equivalents were managed by financial institutions. Accounts receivable are typically unsecured and are derived from revenues earned from customers in the PRC. The risk with respect to accounts receivable is mitigated by credit evaluations the Group perform on its customers and ongoing monitoring process on outstanding balances.

*Current vulnerability due to certain other concentrations*

The Group's operations may be adversely affected by significant political, economic and social uncertainties in the PRC. Although the PRC government has been pursuing economic reform policies for more than 20 years, no assurance can be given that the PRC government will continue to pursue such policies or that such policies may not be significantly altered, especially in the event of a change in leadership, social or political disruption or unforeseen circumstances affecting the PRC's political, economic and social conditions. There is also no guarantee that the PRC government's pursuit of economic reforms will be consistent or effective.

Substantially all of the Group's businesses are transacted in RMB, which is not freely convertible into foreign currencies. On January 1, 1994, the PRC government abolished the dual rate system and introduced a single rate of exchange as quoted daily by the People's Bank of China. However, the unification of the exchange rates does not imply the convertibility of RMB into United States dollars or other foreign currencies. All foreign exchange transactions continue to take place either through the People's Bank of China or other banks authorized to buy and sell foreign currencies at the exchange rates quoted by the People's Bank of China. Approval of foreign currency payments by the People's Bank of China or other institutions requires submitting a payment application form together with supplier invoices, shipping documents and signed contracts.

*(t) Recently issued accounting standards*

In September 2006, the Financial Accounting Standards Board ( FASB ) issued SFAS No. 157, Fair Value Measurement ( SFAS No. 157 ). SFAS No. 157 addresses standardizing the measurement of fair value for companies that are required to use a fair value measure of recognition for recognition or disclosure purposes. The FASB defines fair value as 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 measure date . SFAS No. 157 is effective for financial

**Table of Contents**

**VISIONCHINA MEDIA INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Amounts in U.S. dollars ( \$ ), except number of shares and per share data)**

statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The Group is currently evaluating the impact, if any, of SFAS No. 157 on its financial position, results of operations and cash flows.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* ( SFAS No. 159 ). SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Group is currently evaluating the impact of SFAS No. 159.

In June 2007, the FASB also ratified EITF 07-3, *Accounting for Nonrefundable Advance Payments for Goods or Services Received for Use in Future Research and Development Activities* ( EITF 07-3 ). EITF 07-3 requires that nonrefundable advance payments for goods or services that will be used or rendered for future research and development activities be deferred and capitalized and recognized as an expense as the goods are delivered or the related services are performed. EITF 07-3 is effective for fiscal years beginning after December 15, 2007. The Group is currently evaluating the impact of EITF 07-3. The Group do not expect the adoption of EITF 07-3 to have a material effect on the consolidated results of operations and financial condition.

In December 2007, the FASB issued SFAS No. 141R, *Business Combination* ( SFAS No. 141R ), to improve reporting creating greater consistency in the accounting and financial reporting of business combinations. The standard requires the acquiring entity in a business combination to recognize all (and only) the assets acquired and liabilities assumed in the transaction; establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed; and requires the acquirer to disclose to investors and other users all of the information they need to evaluate and understand the nature and financial effect of the business combination. SFAS No. 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. An entity may not apply it before that date. The Group is currently evaluating whether the adoption of SFAS No. 141R will have a significant effect on its consolidated financial position, results of operations or cash flows.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements* ( SFAS No. 160 ) to improve the relevance, comparability, and transparency of financial information provided to investors by requiring all entities to report noncontrolling (minority) interests in subsidiaries in the same way as required in the consolidated financial statements. Moreover, SFAS No. 160 eliminates the diversity that currently exists in accounting for transactions between an entity and noncontrolling interests by requiring they be treated as equity transaction. SFAS No. 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Earlier adoption is prohibited. The Group is currently evaluating whether the adoption of SFAS No. 160 will have a significant effect on its consolidated financial position, results of operations or cash flows.

**Table of Contents****VISIONCHINA MEDIA INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Amounts in U.S. dollars ( \$ ), except number of shares and per share data)

**3. PREPAID EXPENSES AND OTHER CURRENT ASSETS**

Prepaid expenses and other current assets consist of the followings:

	As of December 31,	
	2006	2007
Advances to suppliers	\$ 2,946,803	\$ 8,566,552
Staff advances	208,329	46,845
Deposits	15,481	555,069
Interest receivables		350,188
Others	113,713	164,405
	\$ 3,284,326	\$ 9,683,059

Advances to suppliers mainly represent prepayment for media cost. Deposits mainly represent deposits for media cost agreements.

At the balance sheet date, the long-term prepaid expenses included in non-current assets mainly represent the prepaid service fee.

**4. FIXED ASSETS, NET**

Fixed assets consist of the following:

	As of December 31,	
	2006	2007
Computers and office equipment	\$ 190,890	\$ 402,474
Media display equipment	83,194	6,962,089
Motor vehicles	56,476	140,688
Leasehold improvements	158,179	570,108
Sub-total	\$ 488,739	\$ 8,075,359
Less: accumulated depreciation and amortization	46,099	366,155
	\$ 442,640	\$ 7,709,204

Depreciation and amortization expense was \$3,743, \$41,491 and \$306,491 for the period from April 8, 2005 (date of inception) to December 31, 2005, and for the years ended December 31, 2006 and 2007, respectively.

Included in media display equipment is assembly in progress of \$2,679,931. These assets will be placed in service in 2008.

**5. INVESTMENTS UNDER EQUITY METHOD**

## Edgar Filing: VISIONCHINA MEDIA INC. - Form F-1

In 2005, CDMTV made cash investments totaling \$728,606 and \$667,889 for its 49% equity interests in Haerbin Mobile and Jilin Mobile, respectively.

On April 29, 2005, Champs Elysees Investment Co. Ltd., an entity under common control, invested \$607,172 into Chengdu Mobile to acquire 49% of its voting interests on CDMTV's behalf. In December 2005, Champs Elysees Investment Co. Ltd transferred the 49% voting interests in Chengdu Mobile to CDMTV at

F-16

**Table of Contents****VISIONCHINA MEDIA INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Amounts in U.S. dollars ( \$ ), except number of shares and per share data)

original cost in accordance with previously signed agreements. As a result, CDMTV has accounted for its investment in Chengdu Mobile since April 29, 2005.

In 2006, CDMTV made cash investments totaling \$753,006, \$753,006 and \$768,374 for its 49% equity interests in Dalian Mobile, Henan Mobile and Hubei Mobile, respectively.

In 2007, CDMTV made cash investments totalling \$965,581, \$772,465 and \$643,720 for its 49% equity interests in Suzhou Mobile, Changzhou Mobile and Ningbo Mobile, respectively. These equity method investees have been separately established with 3 separate parties for the purpose of engaging in provision of digital mobile television advertising services in the PRC.

In addition, CDMTV made additional cash investments of \$965,580 and \$507,154 to its existing equity method investees, Dalian Mobile and Hubei Mobile, respectively.

As of December 31, 2007, CDMTV has totally nine equity method investees. The Group has accounted for these investments using equity method of accounting.

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

	For the period from April 8, 2005 (date of inception) to December 31, 2005	For the year ended December 31,	
		2006	2007
<i>Condensed statement of operations information:</i>			
Revenue	\$ 80,771	\$ 681,751	\$ 1,783,008
Net losses	(171,335)	(631,128)	(2,124,146)
Group's equity in net loss of investees	\$ (83,954)	\$ (309,253)	\$ (1,040,832)

	As of December 31,	
	2006	2007
<i>Condensed balance sheet information:</i>		
Current assets	\$ 2,845,848	\$ 5,734,140
Non-current assets	3,605,746	8,440,377
Total assets	\$ 6,451,594	\$ 14,174,517
Current liabilities	\$ 1,132,015	\$ 4,464,240
Equity	5,319,579	9,710,277
Total liabilities and equity	\$ 6,451,594	\$ 14,174,517
Group's share of net assets	\$ 2,985,914	\$ 4,758,036

## Edgar Filing: VISIONCHINA MEDIA INC. - Form F-1

As of December 31, 2006 and 2007, the carrying value of the Group's investments under equity method was \$3,747,493 and \$6,714,853, respectively. The difference between the carrying value of the Group's investments under equity method and the Group's share in its investees' net assets was attributable to the amount of gross profit recognized on the sales of certain media display equipment to its investees; and the adjustment attributable to intangible asset, which represent the broadcasting rights contributed by the investors, identified on formation and its related amortization.

F-17

**Table of Contents****VISIONCHINA MEDIA INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Amounts in U.S. dollars ( \$ ), except number of shares and per share data)

**6. OTHER INVESTMENTS**

In February 2006, the Group acquired 25% voting interest in Shenzhen Mobile, through CDMTV's subsidiary Gaoqing Digital Television, for cash consideration of \$1,543,769. Shenzhen Mobile is established in the PRC and engages in provision of digital mobile television advertising services in the PRC. As the Group cannot exercise significant influence over Shenzhen Mobile's operating and financial activities, the Group accounts for this investment using the cost method of accounting.

In August 2006, the Group acquired 14% voting interest in Wuxi Guangtong Digital Mobile Television Company Limited ( Guangtong Mobile ), for cash consideration of \$435,796. Guangtong Mobile is established in the PRC and engages in provision of digital mobile television advertising business in the PRC. The Group accounts for this investment using the cost method of accounting.

**7. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES**

Accrued expenses and other current liabilities consist of the following:

	As of December 31,	
	2006	2007
Accrued expenses	\$ 24,066	\$ 327,566
Accrued direct offering expenses		2,519,259
Accrued professional service fees	121,019	401,608
Accrued payroll and welfare	144,609	483,666
Taxes payable	64,775	562,241
Customer deposits	69,919	653,201
Deferred revenue		926,573
Others	56,466	180,438
	\$ 480,854	\$ 6,054,552

**8. CONVERTIBLE REDEEMABLE PREFERRED SHARES**

In April 2006, the Company issued 14,250,000 Series A convertible redeemable preferred shares ( Series A Preferred Share(s) ) for \$1 per share for total proceeds of \$13,636,994, net of issuance costs of \$613,006.

In March and July 2007, the Company issued in aggregate 17,889,088 Series B convertible redeemable preferred shares ( Series B Preferred Share(s) ) for \$2.236 per share for total proceeds of \$38,264,439, net of issuance costs of \$1,735,561.

Series A Preferred Shares and Series B Preferred Shares are collectively referred to as the Preferred Share(s) .

Upon completion of the initial public offering in December 2007, all convertible preferred shares automatically converted into 32,139,088 common shares. As of December 31, 2006, the Company had 14,250,000 Series A Preferred Shares outstanding.

---

**Table of Contents**

**VISIONCHINA MEDIA INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Amounts in U.S. dollars ( \$ ), except number of shares and per share data)**

The holders of Preferred Shares have various rights and preferences as follows:

*Redemption*

The Preferred Shares shall not be redeemable at the option of holders of the Preferred Shares except:

(1) Optional redemption beginning on April 13, 2009; or suspension or termination of wireless television signals which represented more than 50% of the Company's television network. The redemption price for each of Preferred Shares shall be equal one hundred and fifty percent (150%) of the applicable original issue price, plus in each case all dividends declared and unpaid with respect thereto per Preferred Share then held by such holder; or

(2) Insufficient funds. If the Company's assets or funds which are legally available on the date that any redemption payment is due are insufficient to pay in full all redemption payments to be paid on such date, those assets and fund funds which are legally available shall be used to pay all redemption payments due on such date ratably in proportion to the full amounts to which the holders to which such redemption payments are due would otherwise be respectively entitled thereon.

The Company accrued the premium over the redemption period as a deemed dividend with a debit to the deficit of \$1,583,333 and \$6,625,262 for the years ended December 31, 2006 and 2007, respectively.

*Dividends*

Each holder of Preferred Shares shall be entitled to receive dividends, on a pari passu basis, out of any funds or assets legally available therefor, prior and in preference to any declaration or payment of any dividend on the common shares, at 8% in respect of such Preferred Shares when, as and if declared by the Board of Directors, but not otherwise. All such dividends per Preferred Share shall be cumulative from the date that the Board of Directors declares such dividends.

*Conversion*

Subject to the provisions of the Memorandum and the Articles, Preferred Shares may, at the option of the holder thereof, be converted at any time into fully-paid and nonassessable common shares based on the applicable then-effective conversion price. The initial conversion price for Series A Preferred Shares and Series B Preferred Shares shall be US\$1.00 and US\$2.236, respectively, and the initial per share conversion ratio for Preferred Shares to common shares shall be 1:1, which shall be subject to adjustment subject to adjustment for stock dividends, stock splits, combinations and similar events. Each Preferred Share shall automatically be converted into common shares upon the closing of a qualified initial public offering, based on the applicable then-effective conversion price.

*Voting*

Subject to the provisions of the Memorandum and the Articles, at all general meetings of the Company: (i) the holder of each common share issued and outstanding shall have one vote in respect of each common share held, and (ii) the holder of Preferred Shares shall be entitled to such number of votes as equals the whole number of common shares into which such holder's collective Preferred Shares are convertible immediately after the close of business on the record date of the determination of the Company's shareholders entitled to vote or, if no such record date is established, at the date such vote is taken or any written consent of the Company's shareholders is first solicited. Subject to provisions to the contrary elsewhere in the Memorandum and the

**Table of Contents****VISIONCHINA MEDIA INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Amounts in U.S. dollars ( \$ ), except number of shares and per share data)

Articles, or as required by the Statute, the holders of Series A Preferred Shares shall vote together with the holders of common shares, and not as a separate class or series, on all matters put before the shareholders.

*Liquidation*

Upon any liquidation, dissolution or winding up of the Company, either voluntary or involuntary, before any distribution or payment shall be made with respect to any common shares, an amount shall be paid on a pari passu basis with respect to each Preferred Share equal to the greater of (i) one hundred fifty percent (150%) of the applicable original issue price (as adjusted for any dividend of shares, division or combination of shares recapitalizations and the like) plus all dividends declared and unpaid with respect thereto (the Preference Amount); and (ii) a pro rata share of all funds and assets of the Company legally available for distribution to shareholders of the Company on the basis as if all the Preferred Shares were converted into common shares immediately before the holding of the general meeting, plus all declared but unpaid dividends thereon.

**9. COMMON SHARES**

The Company's Memorandum and Articles of Association, as amended, authorizes the Company to issue 50,000,000 common shares with a nominal or par value of \$0.0001 each. On April 12, 2006, the Company issued 22,000,000 common shares to the then shareholders of CDMTV as part of the Company's re-organization plan.

Upon completion of the initial public offering (IPO) in December 2007, the Company's Memorandum and Articles of Association, as amended, authorizes the Company to issue 200,000,000 common shares with a nominal or par value of US\$0.0001 each. There were 68,386,838 common shares issued and outstanding as of December 31, 2007 after conversion of 14,250,000 Series A and 17,889,088 Series B convertible redeemable preferred shares to 32,139,088 common shares upon completion of IPO, issuance of 13,500,000 common shares in connection with the initial public offering, and 747,750 share options were exercised with the issuance of 747,750 common shares during the year.

**10. SHARE OPTION 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. As of December 31, 2007, the Group has reserved 7,000,000 common shares for issuance under the Plan. In December 2006, the Group granted 1,894,000 share options to employees and consultants with exercise prices ranging from \$0.60 and \$1.00. In 2007, the Group granted 3,996,639 share options to consultants and employees with exercise prices ranging from \$1.00 and \$6.545.

Options granted generally vest 25% after the first year of service and ratably each month over the remaining 36-month period. The contractual term of options granted is generally ten years. Included in 3,996,639 share options granted in 2007, 2,506,748 options granted were vested based on certain performance conditions.

Management has used the Black-Scholes option pricing model to estimate the fair value of the options on grant date with the following weighted-average assumptions:

	December 8, 2006	April 6, 2007	May 16, 2007	July 6, 2007	August 30, 2007	October 31, 2007
Risk-free interest rate	5.02% - 5.05%	4.99%	4.96%	5.31%	4.81%	4.42%
Expected life	5.35 - 6.24 years	1.89 years	2.67 years	1.72 years	2.53 years	1.85 years
Assumed volatility	0.361	0.361	0.361	0.317	0.317	0.350
Expected dividends	0%	0%	0%	0%	0%	0%



**Table of Contents****VISIONCHINA MEDIA INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Amounts in U.S. dollars ( \$ ), except number of shares and per share data)**

Assumed volatility is derived by referring to the average annualized standard deviation of the share price of listed comparable companies. The expected life of the option has been assumed to be exercised evenly throughout the option life. The risk free interest rate is based on the yield to maturity of the PRC government bond as of the grant date with maturity closest to the relevant option expiry date.

The fair value of the option granted in April 2007 and May 2007 was determined on contemporaneous basis by the management of the Company, with reference to Series B convertible redeemable preferred shares. For the options granted on December 8, 2006, July 6, 2007, August 30, 2007 and October 31, 2007, the fair value of the options were determined based on contemporaneous valuation by a third party valuation specialist.

A summary of options under the Plan as of December 31, 2006 and 2007 and changes in the periods is presented below:

	Number of Shares	Weighted- average Exercise Price	Weighted-average Remaining Contractual Life	Weighted- average Fair Value
Outstanding as of January 1, 2006				
Granted on December 8, 2006	1,894,000	0.86		0.19
Exercised				
Forfeited				
Outstanding as of January 1, 2007	1,894,000	0.86		0.19
Granted				
April 6, 2007	800,739	1.90		0.22
May 16, 2007	200,000	1.84		0.33
July 6, 2007	1,230,000	3.545		0.04
August 30, 2007	1,005,900	6.545		0.07
October 31, 2007	760,000	6.545		1.30
Exercised	(747,750)	0.86		0.21
Forfeited	(304,530)	1.65		0.18
Outstanding as of December 31, 2007	4,838,359	3.78	9.46	0.31
Vested and expected to vest as of				
December 31, 2007	4,835,800	3.25	9.38	0.23
Exercisable as of December 31, 2007	1,127,041	3.13	9.48	0.06

The fair value of common shares on December 8, 2006, April 6, 2007, May 16, 2007, July 6, 2007, August 30, 2007 and October 31, 2007 were approximately \$0.6, \$1.52, \$1.52, \$1.78, \$2.71 and \$6.31 respectively.

The aggregate intrinsic value of the share option at each of the grant dates was zero, as the exercise price is higher than fair value of the common share. The intrinsic value of the outstanding share option was \$4.72 as of December 31, 2007.

The total fair value of options vested and expensed for the period from April 8, 2005 (date of inception) to December 31, 2005, and the years ended December 31, 2006 and 2007 was \$nil, \$78,752 and \$221,362, respectively. During the year ended December 31, 2007, compensation cost of \$34,431, \$135,722 and \$51,209 was recognized and included in cost of revenue, selling and marketing expense; and general and administrative expense, respectively.



**Table of Contents****VISIONCHINA MEDIA INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Amounts in U.S. dollars ( \$ ), except number of shares and per share data)**

As of December 31, 2007, there was \$799,378 of total unrecognized share-based compensation cost related to nonvested share options granted under the Plan. That cost is expected to be recognized over 4 years.

**11. INCOME TAXES**

The Company is a tax exempted company incorporated in the Cayman Islands and conducts substantially all of its business through its PRC subsidiary, CDTC and its PRC variable interest entity, CDMTV, which are generally subject to a 30% state enterprise income tax ( EIT ) and a 3% local income tax.

CDTC is governed by the Income Tax Law of the PRC concerning Foreign Investment and Foreign Enterprises (the Income Tax Law ). Under income tax law, foreign invested enterprises satisfying certain criteria can enjoy preferential tax treatments. CDTC, located in Shenzhen Special Economic Zone, is subject to Foreign Enterprise Income Tax ( FEIT ) at a rate of 15%.

CDMTV's headquarters, located in Shenzhen Special Economic Zone, is subject to EIT at a rate of 15%. CDMTV has been recognized as a Culture Enterprise and thus its headquarter is entitled to full exemption from EIT from 2005 to 2008. CDMTV has sales branches located in various cities in the PRC which are subject to 30% EIT and 3% local income tax.

The Group had minimal operations in jurisdictions other than the PRC.

There was no current or deferred income tax expense or benefit for the period from April 8, 2005 (date of inception) to December 31, 2005 and the year ended December 31, 2006. Deferred income tax benefit was \$332,286 for the year ended December 31, 2007.

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

	<b>As of December 31,</b>	
	<b>2006</b>	<b>2007</b>
Deferred tax assets:		
Net operating loss carrying forward	\$ 116,054	\$ 331,276
Bad debt provision	10,822	
Fixed assets	1,481	1,110
<b>Total deferred tax assets</b>	<b>128,357</b>	<b>332,386</b>
Valuation allowance on deferred tax assets	(128,357)	
<b>Net deferred tax assets</b>	<b>\$</b>	<b>\$ 332,386</b>

The realization of the recorded deferred tax assets is dependent on generating sufficient taxable income prior to the expiration of net operating loss carry forwards of \$351,579 and \$1,846,589 as of December 31, 2006 and 2007, respectively, which will expire in year 2011 and 2012.

**Table of Contents****VISIONCHINA MEDIA INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Amounts in U.S. dollars ( \$ ), except number of shares and per share data)**

A reconciliation of the income tax expense to the amount computed by applying the current tax rate to the income (loss) before income taxes in the statement of operations is as follows:

	2005	2006	2007
Expected taxation at PRC EIT statutory rate of 33%	\$ (137,415)	\$ (1,342,772)	\$ 3,099,808
Effect of tax exemption	93,596	1,258,234	(3,303,837)
Change in valuation allowance	43,819	84,538	(128,357)
Total income tax expense / (benefit)	\$	\$	\$ (332,386)

\$Nil, \$nil and \$1,560,697 would otherwise have been payable without tax holidays and tax concessions for the period from April 8, 2005 (date of inception) to December 31, 2005, and for the years ended December 31, 2006 and 2007, respectively. In addition, \$nil, \$nil and \$0.06 would be deducted on the basic income /losses per share for the period from April 8, 2005 (date of inception) to December 31, 2005, and for the years ended December 31, 2006 and 2007, respectively.

On January 1, 2008, a new enterprise income tax law in China took effect. The new law applies a uniform 25% enterprise income tax rate to both foreign invested enterprises and domestic enterprises. The new law provides a five-year transition period from its effective date for those enterprises which were established before the promulgation date of the new tax law and which were entitled to a preferential tax treatment such as a reduced tax rate or a tax holiday. The Ministry of Finance of the PRC and the State Administration of Taxation issued a circular Notice on preferential tax treatment of enterprise income tax in February 2008. The circular stipulates that newly established culture enterprises could enjoy the corporate income tax exemption treatment which has been approved by the authorities until the end of the holiday. CDMTV has already obtained the tax exemption approval certificate for year 2008.

Aggregate undistributed earnings of the Company's subsidiaries in the PRC that are available for distribution to the Company of approximately \$4 million at December 31, 2007 are considered to be indefinitely reinvested under APB opinion No. 23, and accordingly, no provision for has been made for the Chinese dividend withholding taxes that would be payable upon the distribution of those amounts to the Company. In an announcement formally made on February 22, 2008, the PRC authorities clarified that the distributions made out of undistributed earnings that arose prior to January 1, 2008 would not attract withholding tax.

In July 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 (FIN 48), which clarifies the accounting and disclosure for uncertainty in tax positions, as defined in that statement. FIN 48 prescribes a more-likely-than-not threshold for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This interpretation also provides guidance on de-recognition of income tax assets and liabilities, classification of current and deferred income tax assets and liabilities, accounting for interest and penalties associated with tax positions, accounting for income taxes in interim periods and income tax disclosures.

The Group adopted the provisions of FIN 48 effective January 1, 2007. The Group has made its assessment of the level of tax authority for each tax position (including the potential application of interest and penalties) based on the technical merits, and has measured the unrecognized tax benefits associated with the tax positions. Based on the evaluation by the Group, it is concluded that there are no significant uncertain tax positions requiring recognition in financial statements. The Group has no material unrecognized tax benefit which would favorably affect the effective income tax rate in future periods. The Group classifies interest and/or

**Table of Contents****VISIONCHINA MEDIA INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Amounts in U.S. dollars ( \$ ), except number of shares and per share data)**

penalties related to income tax matters in income tax expense. As of December 31, 2007, there is no interest and penalties related to uncertain tax positions. The years 2005 to 2007 remain subject to examination by the PRC tax authorities.

**12. MAINLAND CHINA CONTRIBUTION PLAN AND PROFIT APPROPRIATION**

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. Chinese labor regulations require the Group to accrue for these benefits based on certain percentages of the employees' salaries. The total contribution for such employee benefits for the period from April 8, 2005 (date of inception) to December 31, 2005, and for the years ended December 31, 2006 and 2007 were \$582, \$13,701 and \$53,387, respectively.

**13. COMMITMENTS***(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 period from April 8, 2005 (date of inception) to December 31, 2005, and for the years ended December 31, 2006 and 2007 were \$45,458, \$165,221 and \$373,917, respectively.

As of December 31, 2007, the Group was obligated under operating leases, which relate to office premises, requiring minimum rental as follows:

<b>As of December 31,</b>	
2008	\$ 537,618
2009	299,286
2010	101,304
2011	101,304
2012	101,304
2013 and thereafter	292,718
	<b>\$ 1,433,534</b>

*(b) Others*

The Group has entered into several agreements to pay media cost for the period of 5 to 10 years. As of December 31, 2007, future minimum purchase commitments under these agreements totalled \$129,686,869, which will be payable as follow:

<b>As of December 31,</b>	
2008	\$ 14,685,716
2009	15,773,332
2010	16,466,000
2011	15,975,839
2012	13,811,090

2013 and thereafter

52,974,892

\$ 129,686,869

F-24

**Table of Contents****VISIONCHINA MEDIA INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Amounts in U.S. dollars ( \$ ), except number of shares and per share data)****14. SEGMENT AND GEOGRAPHIC INFORMATION**

The Group engaged in provision of advertising services and sales of digital equipment to its investee companies in the PRC. The Group's chief operating decision maker has been identified as the Chief Executive Officer, who reviews the consolidated results when making decisions about allocating resources and assessing performance of the Group.

*Geographical information*

The Group operates in the PRC and all of the Group's identifiable assets are located in the PRC.

Although the Group operates in multiple cities in China which include Beijing, Shanghai, Guangzhou, Shenzhen and Nanjing, it believes it operates in one segment as the Group provide services to customers irrespective of their locations. Accordingly all financial segment information can be found in the consolidated financial statements.

*Major Customers*

The Group contracts either directly with advertisers or through advertising agents. In 2007 the Group has contracted with the following advertising agents with 10% or more of the total advertising service revenues:

	<b>2007</b>
Agent A	\$ 4,770,915
Agent B	3,870,064
Agent C	3,554,534
Agent D	3,117,335

In 2007, the Group has not directly contracted with any advertiser which accounted for 10% or more of the total advertising service revenue. In 2005 and 2006, there were no advertisers or advertising agents which accounted for 10% or more of the total advertising service revenue.

The accounts receivable from a customer with the largest receivable balances represents 39% and 27% of the balance of the account as of December 31, 2006 and 2007, respectively.

**Table of Contents****VISIONCHINA MEDIA INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Amounts in U.S. dollars ( \$ ), except number of shares and per share data)

**15. RELATED PARTY TRANSACTIONS**

(a) Details of amounts due from related parties as of December 31, 2006 and 2007 are as follows:

	As of December 31,	
	2006	2007
Investees		
Chengdu Mobile	\$ 162,447	\$ 674,547
Dalian Mobile	178,404	98,484
Haerbin Mobile	3,200	
Henan Mobile	817,089	838,977
Hubei Mobile	41,968	133,951
Jinlin Mobile	329,588	406,828
Changzhou Mobile		233,215
Ningbo Mobile		1,164,610
Guangtong Mobile		82,252
	\$ 1,532,696	\$ 3,632,864

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, 2006 and 2007 are as follows:

	As of December 31,	
	2006	2007
Investees		
Chengdu Mobile	\$ 77,574	\$ 107,028
Dalian Mobile	9,063	51,798
Guangtong Mobile	7,556	8,640
Haerbin Mobile	7,594	
Hubei Mobile	75,838	7,829
Jilin Mobile	7,784	28,227
Henan Mobile		76,350
Suzhou Mobile		38,832
Ningbo Mobile		6,896
Changzhou Mobile		1,932
	\$ 185,409	\$ 327,532

**Table of Contents****VISIONCHINA MEDIA INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Amounts in U.S. dollars ( \$ ), except number of shares and per share data)***(c) Advertising equipment sales to investee companies*

The Group sold digital equipment at negotiated price to investees for a total amount of \$290,521, \$1,839,599 and \$1,896,200 for the period from April 8, 2005 (date of inception) to December 31, 2005, and for the years ended December 31, 2006 and 2007, respectively. Details are as follows:

	2005	2006	2007
Chengdu Mobile	\$ 192,110	\$ 366,772	\$ 158,605
Dalian Mobile		561,891	229,822
Haerbin Mobile	9,423	106,614	6,567
Henan Mobile		280,327	128,455
Hubei Mobile		50,399	148,042
Jilin Mobile	88,988	473,595	
Suzhou Mobile			216,571
Changzhou Mobile			313,558
Ningbo Mobile			694,580
	\$ 290,521	\$ 1,839,598	\$ 1,896,200

*(d) Services rendered from investee companies*

The Group has received broadcasting service from Chengdu Mobile, Dalian Mobile, Guangtong Mobile, Jilin Mobile, Hubei Mobile, Haerbin Mobile, Ningbo Mobile, Suzhou Mobile and Changzhou Mobile at negotiated prices for a total amount of \$nil, \$78,434 and \$267,412 for the period from April 8, 2005 (date of inception) to December 31, 2005, and for the years ended December 31, 2006 and 2007, respectively. Details are as follows:

	2005	2006	2007
Chengdu Mobile	\$	\$ 41,908	\$ 76,441
Dalian Mobile		13,350	40,668
Guangtong Mobile		9,092	102,531
Jinlin Mobile		14,084	19,228
Hubei Mobile			7,665
Haerbin Mobile			3,364
Ningbo Mobile			6,769
Suzhou Mobile			8,849
Changzhou Mobile			1,897
	\$	\$ 78,434	\$ 267,412

*(e) Rental expense*

During the period from April 8, 2005 (date of inception) to December 31, 2005, the Group rented office space from a former shareholder of CDMTV, Shenzhen Meidi Zhiye Development Co., Ltd. ( Zhiye ). The rate for rent was determined based on negotiated prices. The rental

## Edgar Filing: VISIONCHINA MEDIA INC. - Form F-1

expense for that period was \$26,037. During that period, Zhiye leased another office building to the Group at nil consideration. The market value of the lease was about \$18,936. Such amount was then regarded as equity holder's contribution and recorded as rental expense and additional paid-in capital.

### *(f) Others*

In March 2007, the Group borrowed an aggregate amount of \$2,246,453 from a related party, Shenzhen Meidi Zhiye Development Co., Ltd. The amount was interest-free and fully settled as of December 31, 2007.

**Table of Contents****VISIONCHINA MEDIA INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Amounts in U.S. dollars ( \$ ), except number of shares and per share data)**

In addition, for the period from April 8, 2005 (date of inception) to December 31, 2005, and for the years ended December 31, 2006 and 2007, the Group paid office decoration charges of \$79,830, \$6,306 and \$347,029, respectively, to a company, in which Mr. Li Limin's wife holds a beneficial interest.

**16. PROFIT APPROPRIATION**

In accordance with the Regulations on Enterprises with Foreign Investment of China and their articles of association, the Company's subsidiaries, being foreign invested enterprises established in China, are required to provide for certain statutory reserves, namely general reserve fund, enterprise expansion fund and staff welfare and bonus fund, all of which are appropriated from net profit as reported in their PRC statutory accounts. The Company's subsidiaries are required to allocate at least 10% of their after-tax profits to the general reserve fund until such fund has reached 50% of their respective registered capital. Appropriations to the enterprise expansion fund and staff welfare and bonus fund are at the discretion of the board of directors of the Company's subsidiaries.

In accordance with the PRC Company Law, the Company's VIEs must make appropriations from their after-tax profits as reported in their PRC statutory accounts to non-distributable reserve funds, namely statutory surplus fund, statutory public welfare fund and discretionary surplus fund. The Company's VIEs are required to allocate at least 10% of their after-tax profits to the statutory surplus fund until such fund has reached 50% of their respective registered capital. Appropriation to the statutory public welfare fund is 5% to 10% of their after-tax profits as reported in the PRC statutory accounts. Effective from January 1, 2006, under the revised PRC Company Law, appropriation to the statutory public welfare fund is no longer mandatory. Appropriation to discretionary surplus is made at the discretion of the Company's VIE and its subsidiaries.

General reserve fund and statutory surplus fund are restricted to set-off against losses, expansion of production and operation and increasing registered capital of the respective company. Staff welfare and bonus fund and statutory public welfare fund are restricted to the capital expenditures for the collective welfare of employees. These reserves are not allowed to be transferred to the Company in terms of cash dividends, loans or advances, nor can they be distributed except under liquidation.

There were no appropriations to reserves by the Company other than the Company's subsidiaries in the PRC during any of the periods presented. As a result of these laws, approximately \$Nil and \$767,948 as of December 31, 2006 and 2007, respectively, was not available for distribution. During the year ended December 31, 2007, \$767,948 was appropriated from retained earnings to the statutory surplus reserve.

**17. RESTRICTED NET ASSETS**

Under PRC laws and regulations, there are certain restrictions on the Company's PRC subsidiaries and VIE with respect to transferring certain of their net assets to the Company either in the form of dividends, loans, or advances. Amounts restricted include paid up capital and reserves of the Company's PRC subsidiaries, totaling approximately \$54,949,065 as of December 31, 2007.

**18. SUBSEQUENT EVENT**

In March 2008, the Company granted options and restricted shares to purchase an aggregate of 650,000 common shares to employees and consultants under the Plan.

**Table of Contents****VISIONCHINA MEDIA INC.****CONDENSED FINANCIAL INFORMATION OF REGISTRANT SCHEDULE I****BALANCE SHEET**

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

	December 31, 2006	December 31, 2007
<b>ASSETS</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 876,378	\$ 101,949,141
Due from subsidiary	6,041,201	5,950,390
Prepaid expense and other current asset	41,295	318,922
<b>Total current assets</b>	<b>\$ 6,958,874</b>	<b>\$ 108,218,453</b>
Investment in subsidiary and variable interest entity	8,867,260	58,284,253
<b>TOTAL ASSETS</b>	<b>\$ 15,826,134</b>	<b>\$ 166,502,706</b>
<b>LIABILITIES, MEZZANINE EQUITY AND SHAREHOLDERS EQUITY</b>		
<b>Current Liabilities:</b>		
Accrued expenses and other current liabilities	\$ 24,141	\$ 2,473,887
<b>Total liabilities</b>	<b>\$ 24,141</b>	<b>\$ 2,473,887</b>
<b>Mezzanine equity</b>		
Series A convertible redeemable preferred shares (\$0.0001 par value; 14,250,000 shares authorized, issued and outstanding as of December 31, 2006 (liquidation value: \$21,375,000))	\$ 15,220,327	\$
<b>Shareholders equity</b>		
Common shares (\$0.0001 par value; 50,000,000 and 200,000,000 shares authorized; 22,000,000 and 68,386,838 shares issued and outstanding as of December 31, 2006 and 2007, respectively)	2,200	6,839
Additional paid-in capital	6,136,689	163,820,443
Accumulated deficit	(5,557,223)	(2,789,127)
Accumulated other comprehensive income		2,990,664
<b>Total shareholders equity</b>	<b>\$ 581,666</b>	<b>\$ 164,028,819</b>
<b>TOTAL LIABILITIES, MEZZANINE EQUITY AND SHAREHOLDERS EQUITY</b>	<b>\$ 15,826,134</b>	<b>\$ 166,502,706</b>

Table of Contents

## VISIONCHINA MEDIA INC.

## CONDENSED FINANCIAL INFORMATION OF REGISTRANT SCHEDULE I

## STATEMENT OF CHANGES OF SHAREHOLDERS EQUITY

(Amounts in U.S. dollars ( \$ ))

	For the period from January 27, 2006 (date of incorporation) to, December 31, 2006	For the year ended December 31, 2007
General and administrative expense	(80,052)	(346,777)
Equity in income (loss) of subsidiary and variable interest entity	(3,951,674)	9,426,329
<b>Operating income (loss)</b>	<b>(4,031,726)</b>	<b>9,079,552</b>
Interest income	57,836	313,806
<b>Net income (loss)</b>	<b>(3,973,890)</b>	<b>9,393,358</b>
Deemed dividend on convertible redeemable preferred shares	(1,583,333)	(6,625,262)
<b>Net income (loss) attributable to holders of common shares</b>	<b>(5,557,223)</b>	<b>2,768,096</b>

F-30

Table of Contents

## VISIONCHINA MEDIA INC.

## CONDENSED FINANCIAL INFORMATION OF REGISTRANT SCHEDULE I

## STATEMENT OF CHANGES OF SHAREHOLDERS EQUITY

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

	Common shares		Additional paid-in capital	Accumulated Deficit	Accumulated other comprehensive income	Total shareholders equity	Comprehensive income (loss)
	Number	Amount					
Issue of common shares	22,000,000	2,200	6,057,937			6,060,137	
Share-based compensation			78,752			78,752	
Net loss				(3,973,890)		(3,973,890)	(3,973,890)
Deemed dividend on convertible redeemable preferred shares				(1,583,333)		(1,583,333)	
<b>Balance at December 31, 2006</b>	22,000,000	2,200	6,136,689	(5,557,223)		581,666	
Issuance of common shares pursuant to initial public offering	13,500,000	1,350	100,438,650			100,440,000	
Direct offering expenses			(3,725,432)			(3,725,432)	
Conversion of redeemable preferred shares to common shares	32,139,088	3,214	60,106,814			60,110,028	
Exercise of share options	747,750	75	642,360			642,435	
Share-based compensation			221,362			221,362	
Cumulative translation adjustment					2,990,664	2,990,664	2,990,664
Net income				9,393,358		9,393,358	9,393,358
							12,384,022
Deemed dividend on convertible redeemable preferred shares				(6,625,262)		(6,625,262)	
<b>Balance at December 31, 2007</b>	68,386,838	6,839	163,820,443	(2,789,127)	2,990,664	164,028,819	

**Table of Contents****VISIONCHINA MEDIA INC.****CONDENSED FINANCIAL INFORMATION OF REGISTRANT SCHEDULE I****STATEMENT OF CASHFLOWS**

(Amounts in U.S. dollars ( \$ ))

	<b>For the period, From January 27, 2006 (date of incorporation) to December 31, 2006</b>	<b>For the year ended December 31, 2007</b>
<b>Cash flows from operating activities:</b>		
Net income (loss)	(3,973,890)	9,393,358
Adjustments to reconcile net loss to net cash used in operating activities:		
Equity in loss (income) of investee companies	3,951,674	(9,426,329)
Share-based compensation cost	78,752	221,362
Changes in assets and liabilities, net of effects of acquisitions:		
Due from subsidiaries	(6,041,201)	(2,424,939)
Accrued expense and other current liabilities	24,141	2,449,746
Prepaid expense and other current assets	(41,294)	(277,627)
<b>Net cash used in operating activities</b>	<b>(6,001,818)</b>	<b>(64,429)</b>
<b>Cash flows from investing activities:</b>		
Investment in a subsidiary	(6,758,798)	(37,000,000)
<b>Net cash used in investing activities</b>	<b>(6,758,798)</b>	<b>(37,000,000)</b>
<b>Cash flows provided by financing activities:</b>		
Proceeds from issuance of common shares, net of issuance cost		99,230,318
Proceeds from issuance of Series A convertible redeemable preferred shares, net of issuance cost	13,636,994	
Proceeds from issuance of Series B convertible redeemable preferred shares, net of issuance cost		38,264,439
Proceeds from exercise of share options		642,435
<b>Net cash provided by financing activities</b>	<b>13,636,994</b>	<b>138,137,192</b>
<b>Net increase in cash and cash equivalents</b>	<b>876,378</b>	<b>101,072,763</b>
<b>Cash and cash equivalents, beginning of period/year</b>		<b>876,378</b>
<b>Cash and cash equivalents, end of period/year</b>	<b>876,378</b>	<b>101,949,141</b>

**Table of Contents**

**VISIONCHINA MEDIA INC.**

**CONDENSED FINANCIAL INFORMATION OF REGISTRANT SCHEDULE I**

**(Amounts in U.S. dollars ( \$ ))**

Schedule I has been provided pursuant to the requirements of Rules 12-04(a) and 4-08(e)(3) of Regulation S-X, which require condensed financial information as to financial position, changes in financial position and results of operations of a parent company as of the same dates and for the same periods for which audited consolidated financial statements have been presented when the restricted net assets of consolidated and unconsolidated subsidiaries together exceed 25 percent of consolidated net assets as of the end of the most recently completed fiscal year. As of December 31, 2006 and 2007, approximately \$8,355,733 and \$54,949,065 of the registered capital and reserves are not available for distribution, and as such, the condensed financial information of VisionChina Media Inc. has been presented for the period starting from January 27, 2006 (the date of incorporation). No condensed financial information has been presented for additional periods as the Company did not legally exist until January 27, 2006 and the historical consolidated financial statements presented represent those of the Group as if the Company had been incorporated as of the earliest period presented.

**Basis of Presentation**

For the purposes of the presentation of the parent company only financial information, the Company records its investment in subsidiaries under the equity method of accounting as prescribed in APB opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock*. Such investment is presented on the balance sheet as *Investment in Subsidiaries* and 100% of the subsidiaries' profit or loss as *Equity in profit or loss of subsidiary companies* on the statement of operations and comprehensive income.

Table of Contents

**8,000,000 American Depositary Shares**

**VisionChina Media Inc.**

**Representing 8,000,000 Common Shares**

**Credit Suisse**

**Morgan Stanley**

**Merrill Lynch & Co.**

**Oppenheimer & Co.**

**Susquehanna Financial Group, LLLP**

**Table of Contents****PART II****INFORMATION NOT REQUIRED IN PROSPECTUS****ITEM 6. INDEMNIFICATION OF DIRECTORS AND OFFICERS.**

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Cayman Islands courts to be contrary to public policy, such as to provide indemnification against civil fraud or the consequences of committing a crime. Our Articles of Association provide for indemnification of officers and directors for losses, damages, costs and expenses incurred in their capacities as such, except through their own fraud, dishonesty, willful neglect or default.

Pursuant to the indemnification agreements, the form of which has been filed as Exhibit 10.2 to this Registration Statement, we have agreed to indemnify our directors and officers against certain liabilities and expenses incurred by such persons in connection with claims made by reason of their being such a director or officer.

The form of Underwriting Agreement filed as Exhibit 1.1 to this Registration Statement will also provide for indemnification of us and our officers and directors.

Insofar as indemnification for liabilities arising under the Securities Act of 1933, as amended (the "Securities Act") may be permitted to directors, officers or persons controlling us pursuant to the foregoing provisions, we have been informed that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

**ITEM 7. RECENT SALES OF UNREGISTERED SECURITIES.**

During the past three years, we have issued the following securities (including options to acquire our common shares). We believe that each of the following issuances was exempt from registration under the Securities Act in reliance on Regulation S or Rule 701 under the Securities Act or pursuant to Section 4(2) of the Securities Act regarding transactions not involving a public offering.

Purchaser	Date of Sale or Issuance	Title of Security	Number of Securities	Consideration (US\$)	Underwriting Discount and Commission
Limin Li	February 9, 2006				
	April 12, 2006	(a)			
	August 30, 2007	(d)	15,750,000 <sup>(1)</sup>	<sup>(2)</sup>	n/a
Yanqing Liang	February 9, 2006				
	April 12, 2006	(a)	6,600,000	<sup>(2)</sup>	n/a
OZ Master Fund, Ltd.	April 12, 2006	(b)	6,777,300	6,777,300	n/a
OZ Asia Master Fund, Ltd.	April 12, 2006	(b)	6,895,575	6,895,575	n/a
OZ Global Special Investments Master Fund, L.P.	April 12, 2006	(b)	577,125	577,125	n/a
Milestone Mobile TV Media Holdings I Limited	March 9, 2007				
	July 31, 2007	(c)	3,130,590	6,999,999	n/a
Milestone Mobile TV Media Holdings II Limited	March 9, 2007				
	July 31, 2007	(c)	3,130,590	6,999,999	n/a
Milestone Mobile TV Media Holdings III Limited	March 9, 2007				
	July 31, 2007	(c)	447,228	1,000,002	n/a
Milestone Mobile TV Media Holdings IV Limited	March 9, 2007	(c)	1,341,682	3,000,001	n/a

Edgar Filing: VISIONCHINA MEDIA INC. - Form F-1

	July 31, 2007				
IPROP Holdings Limited	March 9, 2007				
	July 31, 2007	(c)	4,472,272	10,000,000	n/a
GSPS Asia Limited	March 9, 2007				
	July 31, 2007	(c)	5,366,726	11,999,999	n/a
Directors, Officers and Employees of the Registrant	(3)	(d)	3,615,739	n/a	n/a
Consultants of the Registrant	(3)	(d)	2,374,900	n/a	n/a
Employees of the Registrant	November 20, 2007	(a)	710,750	550,750	n/a
Employees and consultants	Varies dates	(d)(e)	868,000	n/a	n/a

- (1) Includes one common share issued to Mapcal Limited on January 27, 2006, and transferred to Mr. Li on February 9, 2006, and includes 350,000 common shares issuable upon the exercise of options to purchase our common shares granted to Mr. Li on August 30, 2007.

**Table of Contents**

- (2) Mr. Li and Ms. Liang originally invested an aggregate of RMB50 million in CDMTV. In connection with the establishment of our company and the contractual arrangements between our company, on the one hand, and CDMTV, Mr. Li and Ms. Liang, on the other hand, we obtained control of CDMTV and issued our common shares to Mr. Li and Ms. Liang.
- (3) The options to purchase common shares of the registrant were granted on various dates from April 15, 2006 to August 31, 2007
  - (a) Common shares
  - (b) Series A preferred shares
  - (c) Series B preferred shares
  - (d) Options to purchase common shares
  - (e) Restricted shares

**ITEM 8. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.**

*(a) Exhibits*

See Exhibit Index beginning on page II-6 of this registration statement.

*(b) Financial Statement Schedules*

Schedules have been omitted because the information required to be set forth therein is not applicable or is shown in the Consolidated Financial Statements or the Notes thereto.

**ITEM 9. UNDERTAKINGS.**

The undersigned registrant hereby undertakes to provide to the underwriter at the closing specified in the underwriting agreements, certificates in such denominations and registered in such names as required by the underwriter to permit prompt delivery to each purchaser.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the registrant pursuant to the provisions described in Item 6, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

The undersigned registrant hereby undertakes that:

- (1) For purposes of determining any liability under the Securities Act, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant under Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.
- (2) For the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

**Table of Contents**

(3) For the purpose of determining liability under the Securities Act of 1933 to any purchaser, each prospectus filed pursuant to Rule 424(b) as part of a registration statement relating to an offering, other than registration statements relying on Rule 430B or other than prospectuses filed in reliance on Rule 430A, shall be deemed to be part of and included in the registration statement as of the date it is first used after effectiveness, provided, however, that no statement made in a registration statement or prospectus that is part of the registration statement or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such first use, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such date of first use.

(4) For the purpose of determining liability of the registrant under the Securities Act of 1933 to any purchaser in the initial distribution of the securities, the undersigned registrant undertakes that in a primary offering of securities of the undersigned registrant pursuant to this registration statement, regardless of the underwriting method used to sell the securities to the purchaser, if the securities are offered or sold to such purchaser by means of any of the following communications, the undersigned registrant will be a seller to the purchaser and will be considered to offer or sell such securities to such purchaser:

(i) Any preliminary prospectus or prospectus of the undersigned registrant relating to the offering required to be filed pursuant to Rule 424;

(ii) Any free writing prospectus relating to the offering prepared by or on behalf of the undersigned registrant or used or referred to by the undersigned registrant;

(iii) The portion of any other free writing prospectus relating to the offering containing material information about the undersigned registrant or its securities provided by or on behalf of the undersigned registrant; and

(iv) Any other communication that is an offer in the offering made by the undersigned registrant to the purchaser.

**Table of Contents****SIGNATURES**

Pursuant to the requirements of the Securities Act of 1933, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form F-1 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in Shenzhen, People's Republic of China, on August 1, 2008.

**VISIONCHINA MEDIA INC.**

By:  
**Name:** **Limin Li**  
**Title:** **Chairman of the Board of Directors and**  
**Chief Executive Officer**

**POWER OF ATTORNEY**

Each person whose signature appears below constitutes and appoints Limin Li and Dina Liu as attorneys-in-fact with full power of substitution, for him or her in any and all capacities, to do any and all acts and all things and to execute any and all instruments which said attorney and agent may deem necessary or desirable to enable the registrant to comply with the Securities Act of 1933, as amended (the "Securities Act"), and any rules, regulations and requirements of the Securities and Exchange Commission thereunder, in connection with the registration under the Securities Act of American depositary shares and common shares of the registrant (together, the "Shares"), including, without limitation, the power and authority to sign the name of each of the undersigned in the capacities indicated below to the Registration Statement on Form F-1 (the "Registration Statement") to be filed with the Securities and Exchange Commission with respect to such Shares, to any and all amendments or supplements to such Registration Statement, whether such amendments or supplements are filed before or after the effective date of such Registration Statement, to any related Registration Statement filed pursuant to Rule 462(b) under the Securities Act, and to any and all instruments or documents filed as part of or in connection with such Registration Statement or any and all amendments thereto, whether such amendments are filed before or after the effective date of such Registration Statement; and each of the undersigned hereby ratifies and confirms all that such attorney and agent shall do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act, this Registration Statement has been signed by the following persons in the capacities and on August 1, 2008.

<b>Signature</b>	<b>Title</b>
/s/ Limin Li	Chairman of the Board of Directors and
<b>Limin Li</b>	Chief Executive Officer (principal executive officer)
/s/ Yanqing Liang	Director
<b>Yanqing Liang</b>	
/s/ William Decker	Director
<b>William Decker</b>	
/s/ Xisong Tan	Director
<b>Xisong Tan</b>	



**Table of Contents**

<b>Signature</b>	<b>Title</b>
/s/ Yunli Lou	Director
<b>Yunli Lou</b>	
/s/ Dina Liu	Chief Financial Officer (principal financial and accounting officer)
<b>Dina Liu</b>	
/s/ Donald J. Puglisi	Authorized U.S. Representative
<b>Name: Donald J. Puglisi</b>	
<b>Title: Managing Director</b>	
<b>Puglisi &amp; Associates</b>	

II-5

**Table of Contents**

**VISIONCHINA MEDIA INC.**

**EXHIBIT INDEX**

<b>Exhibit Number</b>	<b>Description of Document</b>
1.1*	Form of Underwriting Agreement.
3.1**	Memorandum and Articles of Association of VisionChina Media Inc.
4.1**	Form of American Depositary Receipt of VisionChina Media Inc.
4.2**	Specimen Certificate for Common Shares of VisionChina Media Inc.
4.3**	Form of Deposit Agreement among the Registrant, the depository and holders and beneficial owners from time to time of the American Depositary Shares issued thereunder.
4.4**	Share Purchase Agreement, dated April 12, 2006, in respect of the sale of Series A preferred shares of the Registrant.
4.5**	Share Purchase Agreement, dated March 9, 2007, in respect of the sale of Series B preferred shares of the Registrant.
4.6**	Shareholders Agreement, dated April 12, 2006, among the Registrant and certain investors in Registrant's Series A preferred shares.
4.7**	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.
4.8**	Amendment No. 1 to the Amended and Restated Shareholders Agreement, dated November 8, 2007, among the same parties.
5.1	Opinion of Maples and Calder regarding the validity of the common shares being registered.
8.1	Opinion of Simpson Thacher & Bartlett LLP regarding certain U.S. tax matters.
8.2*	Opinion of Grandall Legal Group regarding certain PRC tax matters.
10.1**	Registrant's 2006 Share Incentive Plan.
10.2**	Form of Indemnification Agreement with the Registrant's directors.
10.3**	Translation of Loan Agreement dated February 15, 2007 among China Digital Technology (Shenzhen) Co., Ltd. and Limin Li and Yanqing Liang.
10.4**	Translation of Loan Agreement dated March 31, 2006 among China Digital Technology (Shenzhen) Co., Ltd. and Limin Li and Yanqing Liang.
10.5**	Translation of Technology Service and Management Agreement dated February 15, 2007 between China Digital Technology (Shenzhen) Co., Ltd. and China Digital Mobile Television Co., Ltd.
10.6**	Translation of Technology Service and Management Agreement dated March 31, 2006 between China Digital Technology (Shenzhen) Co., Ltd. and China Digital Mobile Television Co., Ltd.
10.7**	Translation of Domain Name License Agreement dated February 15, 2007 between China Digital Technology (Shenzhen) Co., Ltd. and China Digital Mobile Television Co., Ltd.
10.8**	Translation of Domain Name License Agreement dated March 31, 2006 between China Digital Technology (Shenzhen) Co., Ltd. and China Digital Mobile Television Co., Ltd.
10.9**	Translation of Option Agreement dated February 15, 2007 among China Digital Technology (Shenzhen) Co., Ltd. and Limin Li and Yanqing Liang.

**Table of Contents**

<b>Exhibit Number</b>	<b>Description of Document</b>
10.10**	Translation of Option Agreement dated March 31, 2006 among China Digital Technology (Shenzhen) Co., Ltd. and Limin Li and Yanqing Liang.
10.11**	Translation of Proxy Letter dated March 31, 2006 and Amendment to Proxy Letter dated February 15, 2007 of Limin Li.
10.12**	Translation of Proxy Letter dated March 31, 2006 and Amendment to Proxy Letter dated February 15, 2007 of Yanqing Liang.
10.13**	Translation of Equity Pledge Agreement dated February 15, 2007 among China Digital Technology (Shenzhen) Co., Ltd. and Limin Li and Yanqing Liang.
10.14**	Translation of Equity Pledge Agreement dated March 31, 2006 among China Digital Technology (Shenzhen) Co., Ltd. and Limin Li and Yanqing Liang.
10.15**	Translation of Cooperation Agreement dated October 13, 2006 between China Digital Mobile Television Co., Ltd. and Beijing Beiguang Media Mobile Television Co., Ltd.
10.16**	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.
21.1	Subsidiaries of the Registrant.
23.1	Consent of Deloitte Touche Tohmatsu CPA Ltd., an Independent Registered Public Accounting Firm.
23.2	Consent of Maples and Calder (included in Exhibit 5.1).
23.3	Consent of Simpson Thacher & Bartlett LLP (included in Exhibit 8.1).
23.4	Consent of American Appraisal.
23.5	Consent of CTR Market Research
24.1	Powers of Attorney (included on signature page).
99.1**	Code of Business Conduct and Ethics of the Registrant.
99.2*	Opinion of Grandall Legal Group

\* To be filed.

\*\* Incorporated by reference to the corresponding exhibit to the registrant's registration statement (File No. 333-147275), as amended, initially filed with the Commission on November 9, 2007).

Confidential treatment has been requested for portions of this document.