

VISIONCHINA MEDIA INC.

Form F-1

August 01, 2008

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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**

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**New York, New York 10011**

**(212) 664-1666**

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

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

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

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

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

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

### 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.**

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

**SUBJECT TO COMPLETION**

**PRELIMINARY PROSPECTUS DATED , 2008**

**8,000,000 American Depositary Shares**

**VisionChina Media Inc.**

**Representing 8,000,000 Common Shares**

VisionChina Media Inc., or VisionChina, is offering 1,000,000 American Depositary Shares, or ADSs, and the selling shareholders are offering 7,000,000 ADSs. Each ADS represents one common share, par value US\$0.0001 per share, of VisionChina. The ADSs are evidenced by American Depositary Receipts, or ADRs. We will not receive any proceeds from the ADSs sold by the selling shareholders.

Our ADSs are listed on the Nasdaq Global Market under the symbol VISN. On July 31, 2008, the last sale price for our ADSs as reported on the Nasdaq Global Market was US\$25.04 per ADS.

The underwriters have an option to purchase up to 1,200,000 additional ADSs from us and the selling shareholders at the public offering price, less the underwriting discounts and commissions, to cover over-allotments of ADSs.

*Investing in our ADSs involves risks. See Risk Factors beginning on page 12.*

	<b>Public Offering Price</b>	<b>Underwriting Discounts and Commissions</b>	<b>Proceeds, Before Expenses, to VisionChina</b>	<b>Proceeds, Before Expenses, to the Selling Shareholders</b>
Per ADS	US\$	US\$	US\$	US\$
Total	US\$	US\$	US\$	US\$
Delivery of the ADSs will be made on or about	, 2008.			

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

offense.

**Credit Suisse**

**Morgan Stanley**

**Merrill Lynch & Co.**

**Oppenheimer & Co.**

**Susquehanna Financial Group, LLLP**

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

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

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**PROSPECTUS SUMMARY**

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

**VisionChina Media Inc.**

**Our Business**

We believe that we operate the largest out-of-home advertising network using real-time mobile digital television broadcasts to deliver content and advertising on mass transportation systems in China based on the number of displays. We operate our advertising business in China through our consolidated affiliated entity, China Digital Mobile Television Co., Ltd., or CDMTV, due to PRC regulatory restrictions on foreign investments in the advertising and mobile digital television industries. Our relationships with CDMTV and its shareholders are governed by a series of contractual arrangements that allow us to effectively control, and derive substantially all of the economic benefits from, CDMTV. Our mobile digital television advertising network, or our network, which delivers real-time content provided by the local television stations in addition to advertising, differentiates us from other out-of-home advertising networks in China, and we believe this facilitates our future expansion into different advertising media platforms. Our advertising network consists of digital television displays located on buses and 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.

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

***Exclusive agency model*** refers to our arrangements, with terms 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.



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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**

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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

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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:

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### **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;

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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.

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**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.



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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.

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Over-allotment option	We and the selling shareholders have granted to the underwriters an option, which is exercisable within 30 days from the date of this prospectus, to purchase up to 1,200,000 additional ADSs.
Use of proceeds	Our net proceeds from this offering will be approximately US\$                million after deducting the underwriting discounts and commissions and estimated offering expenses payable by us. We intend to use our net proceeds from this offering for general corporate purposes, including possible acquisitions of complementary businesses, although we are not currently negotiating any such transactions. See Use of Proceeds for additional information. We will not receive any of the proceeds from the sales of the ADSs in this offering by the selling shareholders.
Lock-up	We and the selling shareholders have agreed for a period of 90 days after the date of this prospectus not to sell, transfer or otherwise dispose of any of our common shares or ADSs. See Underwriting for additional information.
Risk factors	See Risk Factors and other information included in this prospectus for a discussion of risks you should carefully consider before investing in our ADSs.
Depository	The Bank of New York Mellon.

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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.

	<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>			
<b>Revenues</b>			
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>
<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>	<b>261,504</b>	<b>5,606,976</b>	<b>14,385,282</b>
<b>Gross profit (loss)</b>	<b>29,017</b>	<b>(1,734,094)</b>	<b>15,000,309</b>
<b>Operating expenses</b>			
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
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>
<b>Net income (loss) per common share:</b>			

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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

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	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.

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**RISK FACTORS**

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

**Risks 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



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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



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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.

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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

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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

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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.

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**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

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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;

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the frequency of our clients' advertisements on our network;

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

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

technical difficulties, system downtime or interruptions;

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

economic and geopolitical conditions in China and elsewhere.

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

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

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

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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



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chief executive officer and our largest shareholder. We rely on his experience in our business operations, and in particular, his business vision, management skills and working relationships with our employees, our other major shareholders, many of our clients and our local operating partners. We face competition for personnel from other mobile digital television advertising companies or general advertising companies and other organizations. Such competition for these individuals could cause us to offer higher compensation and other benefits in order to attract and retain them, which could materially and adversely affect our financial condition and results of operations. 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

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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;

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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.

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

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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

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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.

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**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



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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.

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### **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.

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**Risks Related to Doing Business in China**

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

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

the degree of government involvement;

the level of development;

the growth rate;

the control of foreign exchange;

access to financing; and

the allocation of resources.

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

The Chinese economy has been transitioning from a planned economy to a more market-oriented economy. Although the PRC government has in recent years implemented measures emphasizing the utilization of market forces for economic reform, the reduction of state ownership of productive assets and the establishment of sound corporate governance in business enterprises, a substantial portion of the productive assets in China is still owned by the PRC government. The continued control of these assets and other aspects of the national economy by the PRC government could materially and adversely affect our business. The PRC government also exercises significant control over China's economic growth by allocating resources, controlling payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. 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



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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.

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

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

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

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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

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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.



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Before the EIT Law and its implementation regulations became effective on January 1, 2008, as an enterprise located in the Shenzhen Special Economic Zones in the PRC, CDTC and 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

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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.

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**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

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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.

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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

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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.

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**FORWARD-LOOKING STATEMENTS**

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

You can identify these forward-looking statements by words or phrases such as 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.



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**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.

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**DIVIDEND POLICY**

Since our incorporation, we have never declared or paid any dividends and we have no present plan to declare and pay any dividends on our common shares or ADSs in the near future. We currently intend to retain most, if not all, of our available funds and any future earnings to operate and expand our business. Our board of directors has 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.

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**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.

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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.

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**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.



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### **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

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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:			

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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

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	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)	

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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



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	As of December 31, 2007	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>

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	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
		Six Months Ended June 30, 2007    2008
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

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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.

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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.

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**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
<b>Total contractual obligations</b>	<b>170,401,601</b>	<b>26,416,362</b>	<b>55,205,618</b>	<b>37,006,464</b>	<b>51,773,158</b>

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

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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.

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**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;

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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



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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

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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

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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



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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.



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**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.

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**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



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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.

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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

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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:

	<b>Options Granted</b>	<b>Weighted- Average Exercise Price</b>	<b>Fair value of common shares</b>	<b>Weighted- Average Fair Value of Options</b>	<b>Type of valuation</b>
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.

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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.

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The EIT Law also provides that enterprises established outside of China whose de facto management bodies are located in China are considered resident enterprises, and 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, 2007      December 31, 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
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**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
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### *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.



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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.

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**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.

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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.

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**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.

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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	2007
		(US\$)	
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.



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### ***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:

	<b>Total</b>	<b>Less than 1 year</b>	<b>1-3 years (US\$)</b>	<b>3-5 years</b>	<b>More than 5 years</b>
Long-term purchase agreement	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