

VISIONCHINA MEDIA INC.

Form 20-F/A

May 31, 2011

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

**AMENDMENT NO. 4
TO
FORM 20-F**

(Mark One)

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

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

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

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

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

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

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

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

At the address of the Company set forth above

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

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

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

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

None

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

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

72,140,684 Common Shares

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

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

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

Yes No

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

U.S. GAAP

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

Other

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

Item 17 Item 18

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

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

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

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

**VISIONCHINA MEDIA INC.
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CONVENTIONS THAT APPLY TO THIS ANNUAL REPORT ON FORM 20-F

Unless otherwise indicated, references in this annual report to:

ADSs refers to our American depositary shares, each of which represents one common share, and

ADRs refers to the American depositary receipts that may evidence our ADSs;

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

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

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

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

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

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

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

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

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

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

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

Part I

Item 1. Identity of Directors, Senior Management and Advisers

Not Applicable.

Item 2. Offer Statistics and Expected Timetable

Not Applicable.

Item 3. Key Information

A. Selected Financial Data

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

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

Deemed dividend on
convertible redeemable
preferred shares

Net (loss) income
attributable to holders of
common shares

(416,409)	(5,652,341)	2,768,096	46,809,950	26,603,003
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Net (loss) income per
common share:

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

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

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

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

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

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

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

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

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

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

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

Exchange Rate Information

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

The following table sets forth information concerning exchange rates between the RMB and the U.S. dollar for the periods indicated. These rates are provided solely for your convenience and are not necessarily the exchange rates that we used in this annual report or will use in the preparation of our periodic reports or any other information to be provided to you. The exchange rate of Renminbi per US dollar as set forth in the H.10 statistical release of the Federal Reserve Board was RMB6.4917 to US\$1.00 as of May 20, 2011.

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Period	Exchange Rate (Renminbi per US Dollar) ⁽¹⁾			
	Period End	Average ⁽²⁾	Low	High
	(RMB per US\$1.00)			
2006	7.8041	7.9579	8.0702	7.8041
2007	7.2946	7.6072	7.8127	7.2946
2008	6.8225	6.9477	7.2946	6.7800
2009	6.8259	6.8307	6.8470	6.8176
2010	6.6000	6.7642	6.8330	6.6000
September	6.6905	6.7396	6.8102	6.6869
October	6.6705	6.6675	6.6912	6.6397
November	6.6670	6.6537	6.6906	6.6233
December	6.6000	6.6497	6.6745	6.6000
2011				
January	6.6017	6.5964	6.6364	6.5809
February	6.5713	6.5761	6.5965	6.5520
March	6.5483	6.5645	6.5743	6.5483
April	6.4900	6.5267	6.5477	6.4900
May (through May 20)	6.4917	6.4967	6.5073	6.4915

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

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

B. Capitalization and Indebtedness

Not Applicable.

C. Reasons for the Offer and Use of Proceeds

Not Applicable.

D. Risk Factors

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

Risks Related to Our Company and Our Industry

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

The recent global economic and financial market crisis has caused, among other things, a general tightening in the credit markets, lower levels of liquidity, increases in the rates of default and bankruptcy, lower consumer and business spending, and lower consumer net worth, in the United States, China and other parts of the world. This global economic and financial market crisis has had, and may continue to have, a negative effect on the market price of our ADSs, the volatility of which has increased as a result of the disruptions in the financial markets. It may also impair our ability to borrow funds or enter into other financial arrangements if and when additional funds become necessary for our operations. We believe many of our advertisers have also been affected by the recent economic turmoil. Current or potential advertisers may no longer be in business, may be unable to fund advertising purchases or determine to reduce purchases, all of which would lead to reduced demand for our advertising services, reduced gross

margins, and increased delays of payments of accounts receivable or defaults of payments. We are also limited in our ability to reduce costs to offset the results of a prolonged or severe economic downturn given our fixed media costs associated with our operations. Therefore, if the current economic downturn continues, our business, financial condition, results of operations and cash flow could be materially and adversely affected. In addition, the timing and nature of the continued recovery in the credit and financial markets remains uncertain, and there can be no assurance that market conditions will continue to improve in the near future or that our results will not continue to be materially and adversely affected.

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We began operations in April 2005. We entered into our first direct investment arrangement in Chengdu in May 2005, and we secured our principal exclusive mobile digital television advertising agency arrangements on buses in Beijing and Shenzhen in October and December 2006, respectively. We secured our principal exclusive mobile digital television advertising agency arrangements on subways in Shenzhen and Beijing in May and August 2007, respectively. Accordingly, we have a very limited operating history upon which you can evaluate the viability and sustainability of our business and its acceptance by advertisers and consumers. It is also difficult to evaluate the viability of our mobile digital television advertising network on mass transportation systems because we do not have sufficient experience to address the risks frequently encountered by early stage companies using new forms of advertising media and entering new and rapidly evolving markets. These circumstances may make it difficult for you to evaluate our business and prospects. In addition, due to our short operating history and recent additions to our management team, some of our senior management and employees have only worked together at our company for a relatively short period of time. As a result, it may be difficult for you to evaluate the effectiveness of our senior management and other key employees and their ability to address future challenges to our business.

We have incurred net losses in the past and may incur losses in the future.

For the period from April 8, 2005, the date we commenced operations, to December 31, 2005, and in 2006, we incurred a net loss of US\$0.4 million and US\$5.7 million, respectively. We pay media costs, the components of which are detailed in Item 5A Operating Results Cost of Revenues Advertising Service Cost Media Costs on pages 56 and 57, to our local operating partners for operating our advertising business on buses and subways. These costs constitute a significant portion of our cost of revenues and accounted for approximately 37.2%, 29.7% and 41.4% of our net revenues in the years ended December 31, 2007, 2008 and 2009, respectively. As of December 31, 2010, in respect of the exclusive agency agreements for our bus platforms, nine are entered into with our direct investment entities and seven are entered into with independent local operating partners. In respect of the exclusive agency agreements for our subway platforms, one agreement was entered into with one of our direct investment entities and all other agreements were entered into with independent local operating partners across eight cities in the PRC. Our exclusive agency agreements typically have terms ranging from three to eight years, and do not contain any renewal provisions. Upon expiration of the exclusive agency agreements, we will discuss renewal of the agreements with our local operating partners, and the detailed terms of the new exclusive agency agreements will be negotiated at that time. The exclusive agency agreements cannot be terminated before expiration of the term unless agreed by both parties, and the party who initiates the early termination is subject to penalty at an amount specified in the respective agreement. Our media costs each year from these agreements is fixed and is determined upfront at the time when the contracts were signed. We negotiate each of our exclusive agency agreements with our local operating partners on a case-by-case basis and determine the amount of the media cost for each year under the agreement through the process of negotiation. All of our exclusive agency agreements contain escalation clauses to increase the media cost at pre-determined fixed amounts each year under the agreements, except for (i) two exclusive agency agreements that in aggregate accounted for less than 5% of our media cost and (ii) one exclusive agency agreement that has a fixed media cost for the first six years with an annual increase in the media cost beginning in the seventh year. However, our revenues may fluctuate significantly from period to period as a result of, among others, seasonality, customer loyalty, competition and changes in regulations. If our revenues decrease in a given period, we may be unable to reduce our cost of revenues as a significant portion of our cost of revenues is fixed, which could materially and adversely affect our results of operations and result in a net loss in the period.

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

As of December 31, 2009, we had goodwill and amortizable intangible assets of US\$120.5 million, arising from our acquisitions of six advertising agency businesses in 2008. In January 2010, we completed our acquisition of Digital Media Group Company Limited, or Digital Media Group, for a total consideration of US\$160 million, payable in cash and/or our common shares to eligible former shareholders of the Digital Media Group in three installments over the next two years. We expect to record additional goodwill and intangible assets in connection with our acquisitions of those six advertising agency businesses and our acquisition of Digital Media Group. We are required

under U.S. GAAP to review our amortizable intangible assets and goodwill for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Goodwill is required to be tested for impairment annually or more frequently if facts and circumstances warrant a review. Factors that may be considered a change in circumstances indicating that the carrying value of goodwill and our amortizable intangible assets may not be recoverable, such as a decline of growth in our industry, may have an adverse impact on the operating result of the acquired businesses. We evaluate the amounts of the goodwill and amortizable intangible assets for impairment based on the forecasts of financial performances of the acquired businesses which in turn are based on various assumptions. See Item 5. Operating and Financial Review and Prospects Operating Results Critical Accounting Policies Goodwill and Intangible Assets. As we have a limited operating history upon which we can use to forecast the financial performances of these acquired businesses, any adverse change in the assumptions underlying the forecasts may result in impairment charges to be recorded in our statement of operations, which will cause a decrease in the net income attributable to our shareholders, and cause the carrying value of our goodwill and amortizable intangible assets to be reduced to the recoverable amounts.

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If PRC regulators order one or more of our local operating partners to stop their mobile digital television operations due to violations of applicable regulations, our operations would be harmed and our financial condition and results of operations would be materially and adversely affected.

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

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

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

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

existing mobile television network operations must apply for SARFT approval before April 30, 2006, and must stop operating as of June 15, 2006 if they fail to submit their applications by April 30, 2006 or their applications are disapproved by SARFT.

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

SARFT or its local branches may order any of our local operating partners to stop their operations. If any of our local operating partners are ordered to stop their mobile digital television operations, we may not be able to continue our advertising business in the affected city through other media or channels at acceptable costs, or at all. In that case, our business, financial condition and results of operations would be materially and adversely affected.

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

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

To date, our local mobile digital television operating partners in Shenzhen, Beijing, Zhengzhou, Guangzhou, Ningbo and Shenyang (i.e., Shenzhen Mobile Television Co., Ltd., Beijing Beiguang Media Mobile Television Co., Ltd., Henan Cable China Mobile Television Company Limited, Guangzhou Pearl River Mobile Multimedia Television Co., Ltd., Ningbo China Mobile Television Development Co., Ltd. and Liaoning Beidou Xingkong Digital Television Media Co., Ltd.) have obtained SARFT approvals for operating mobile digital television networks in these cities. Our local mobile digital television operating partners in Changzhou and Dalian (i.e., Changzhou Television Station and Dalian Television Station) submitted their applications to SARFT after April 30, 2006. Our local mobile digital television operating partners in cities other than those mentioned above submitted applications to SARFT before April 30, 2006 as required under the March 2006 Notice, and none of the applications has been rejected by SARFT as of the date hereof. In aggregate, approximately 30% of our revenues in 2009 were attributable to the cities where our local operating partners have not obtained the SARFT approvals.

Our PRC legal counsel has advised us that, since the mobile digital television industry is relatively new in China, there are significant uncertainties regarding the implementation and interpretation of the laws, rules and regulations applicable to mobile digital television operations, including the March 2006 and December 2007 Notices. Moreover, the mobile digital television industry is encouraged under the Eleventh Five-Year Plan (2006-2010) of the PRC government. Furthermore, our local mobile digital television operating partners in such cities (except in Changzhou

and Dalian) submitted applications to SARFT before April 30, 2006 as required under the March 2006 Notice and none of the applications has been rejected by SARFT. Therefore, our PRC legal counsel has advised us that it believes that there is no substantial or material risk that the operations of local mobile digital television networks in these cities will be ordered to stop operations.

However, we cannot assure you that SARFT or its local branches will not order any of our local operating partners to stop their operations. If any of our local operating partners are ordered to stop their mobile digital television operations for incomplete application of the SARFT approval, we may not be able to continue our advertising business in the affected city through other media or channels at acceptable costs, or at all. In that case, our advertising business, financial condition and results of operations would be materially and adversely affected.

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

PRC advertising laws and regulations require advertisers, advertising operators and advertising distributors, including businesses such as ours and our local operating partners, to ensure that the content of the advertisements they prepare or distribute is fair, accurate and in full compliance with applicable laws, rules and regulations. Violation of these laws, rules or regulations may result in penalties, including fines, confiscation of advertising fees, orders to cease dissemination of the advertisements and orders to publish an advertisement correcting the misleading information. In circumstances involving serious violations, the PRC government may revoke a violator's license for its advertising business operations.

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As an operator of an advertising medium, we are obligated under PRC laws, rules and regulations to monitor the advertising content aired on our network or supplemental subway advertising platform for compliance with applicable laws. Although the advertisements shown on our network generally have previously been broadcast over public television networks and have been subjected to internal review and verification by these broadcasters, we are required to separately and independently review and verify these advertisements for content compliance before displaying these advertisements. In addition, for advertising content related to special types of products and services, such as alcohol, cosmetics, pharmaceuticals and medical procedures, we are required to confirm that the advertisers have obtained requisite government approvals including the advertisers' operating qualifications, proof of quality inspection of the advertised products, government pre-approval of the contents of the advertisement and filing with the local authorities. We employ, and our local direct investment entities are required by the applicable PRC laws, rules and regulations to employ, qualified advertising inspectors who are trained to review advertising content for compliance with applicable PRC laws, rules and regulations. We endeavor to comply with such requirements, including by requesting relevant documents from the advertisers. Our reputation will be tarnished and our results of operations may be adversely affected if advertisements shown on our mobile digital television advertising network or supplemental subway advertising platform are provided to us by our advertising clients in violation of relevant PRC content laws and regulations, or if the supporting documentation and government approvals provided to us by our advertising clients in connection with such advertising content are not complete, or if the advertisements that our local operating partners have broadcast on our network have not received required approvals from the relevant local supervisory bodies, or if the advertisements are not content compliant.

All forms of outdoor advertisements must be registered before dissemination with the local branches of the State Administration of Industry and Commerce, or SAIC, which regulates advertising companies, and advertising distributors are required to submit a registration application form as well as the content of the advertisement to the local SAIC branch in order to receive an advertising registration certificate. The applicable PRC laws and regulations are not clear as to whether advertising on public transportation systems or other out-of-home locations would be considered outdoor advertising. In practice, local SAIC branches have discretion in determining whether such advertising constitutes outdoor advertising which would require registration with the relevant local SAIC branch. Local SAIC branches in different regions of the PRC may reach different conclusions with respect to this issue and such conclusions may also be subject to further revisions or amendments. All of our local operating partners are affiliates or subsidiaries of state-owned television stations operating under SARFT, and the senior management of the state-owned television stations consists of appointed government officials. The competent government authority grants state-owned television stations the authority to review and approve the broadcasting advertisements. These state-owned television stations have confirmed that advertisements can be broadcast on mobile digital television without being classified as outdoor advertising. We and each of our local operating partners do not believe that advertising activity on public transportation constitutes outdoor advertising and therefore do not believe that registration with the SAIC is necessary. None of our local operating partners or direct investment entities has renewed or completed the outdoor advertising registration, and as of December 31, 2010, none of our local operating partners or direct investment entities was required by the local SAIC to apply for such registration or was fined or penalized for failing to complete such registration. Furthermore, none of our local operating partners expect the SAIC to levy any fines or sanctions in the future. Our local operating partners have expressed to us their willingness to fully comply with all relevant rules and regulations, including registering with the SAIC, and we therefore believe our local operating partners will be able to apply for the appropriate registrations in the event that the SAIC or the competent government authority determines that such registrations are required. As a precaution to cope with such legal uncertainty, our direct investment entities in Harbin and Zhengzhou had completed the required registrations, but these registrations have already expired in 2008. Currently, our local operating partners have advised us that they do not believe such registrations are necessary, and none of our local operating partners are planning to submit registration applications to the SAIC. If advertising on public transportation systems or other out-of-home locations is determined by a local SAIC branch to be outdoor advertising and a registration is not effected as required by the local SAIC branch, our local operating partner or direct investment entity in the jurisdiction city of the local SAIC branch would be subject to a fine and may be ordered to stop disseminating the advertisements and as a result, our business in

that city would be materially and adversely affected, which may have a material and adverse effect in our overall business.

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

In addition, if the security of the broadcasting network we use to send our signals is breached despite the