VISIONCHINA MEDIA INC.
Form 20-F
June 30, 2011

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

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, 2010

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.

84,047,287 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 o **No** þ

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 o No þ

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 þ No o

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 o No o

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 o	Accelerated filer þ	Non-accelerated filer o

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

U.S. GAAP þ	International Financial Reporting Standards as issued by the International Accounting Standards Board o	o 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 o Item 18 o

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 o No þ

(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 o No o

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

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

Unless otherwise indicated, references in this annual report to:

- ADSs refers to our American depositary shares, each of which represents 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 2010, 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 2010, 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., Suzhou China Mobile Television Co., Ltd., Changzhou China Mobile Television Company Limited, Shanghai Metro Television Company Limited, and Changsha Guangdian Digital Mobile Television Co., Ltd.

From 2011, we terminated the exclusive agency agreement with the local mobile digital television operating company, Hangzhou Guangdian Buses Mobile Multimedia Co., Ltd., and we chose not to renew the exclusive agency agreement with the local operating mobile digital television company in Tianjin, Tianjin North Mobile Multimedia Television Co., Ltd.

In 2010, the local mobile digital television operating companies from which we buy advertising time included 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 le 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, 2008, 2009 and 2010 and as of December 31, 2009 and 2010.

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, 2008, 2009 and 2010 and the condensed consolidated balance sheet data as of December 31, 2009 and 2010 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 the years ended December 31, 2006 and 2007 and the condensed consolidated balance sheet data as of December 31, 2006, 2007 and 2008 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 year ended December 31,				
	2006	2007	2008	2009	2010
	(US$, except number of shares)				
Condensed Consolidated Statement of Operations Data:					
Revenues					
Advertising service revenue	2,033,284	27,489,391	103,515,250	120,686,086	138,056,640
Advertising equipment revenue	1,839,598	1,896,200	565,392		
Total revenues	3,872,882	29,385,591	104,080,642	120,686,086	138,056,640
Cost of revenues					
Advertising service cost	(3,967,081)	(12,801,957)	(40,602,022)	(61,104,381)	(121,000,454)
Advertising equipment cost	(1,639,895)	(1,583,325)	(475,432)		
Total cost of revenues	(5,606,976)	(14,385,282)	(41,077,454)	(61,104,381)	(121,000,454)
Gross (loss) profit	(1,734,094)	15,000,309	63,003,188	59,581,705	17,056,186
Operating expenses *(1)*	(2,067,291)	(5,098,576)	(20,126,107)	(32,046,119)	(183,535,813)
Government grant	125,953			538,085	
Loss from equity method investees	(469,841)	(1,262,273)	(484,969)	(998,606)	(109,989)
Operating (loss) profit	(4,145,273)	8,639,460	42,392,112	27,075,065	(166,589,616)
Interest income	98,873	505,888	3,480,212	1,860,017	2,082,605
Interest expense				(109,590)	(4,952,239)
Government grant			672,515		
Other expenses	(22,608)	(95,719)	(38,491)	(1,278)	
Net (loss) income before income taxes	(4,069,008)	9,049,629	46,506,348	28,824,214	(169,459,250)
Income tax benefit (expense)		332,386	212,325	(2,348,254)	18,202,289
Net (loss) income	(4,069,008)	9,382,015	46,718,673	26,475,960	(151,256,961)
Net loss (income) attributable to noncontrolling interest *(2)*		11,343	91,277	127,043	(81,261)
Net (loss) income attributable to VisionChina Media Inc. shareholders	(4,069,008)	9,393,358	46,809,950	26,603,003	(151,338,222)
Deemed dividend on convertible redeemable preferred shares	1,583,333	6,625,262			
Net (loss) income attributable to holders of common shares	(5,652,341)	2,768,096	46,809,950	26,603,003	(151,338,222)

Net (loss) income per common share:					
Basic	(0.26)	0.11	0.67	0.37	(1.83)
Diluted	(0.26)	0.11	0.65	0.37	(1.83)
Weighted average number of shares used in computation of net (loss) income per share:					
Basic	22,000,000	24,709,522	70,064,663	71,686,900	82,739,234
Diluted	22,000,000	25,771,702	72,404,916	72,676,438	82,739,234
Share-based compensation expenses during the related periods included in:					
Cost of revenues	37,576	34,431	39,847	63,477	100,711
Selling and marketing expenses	5,374	135,722	1,163,623	3,698,329	432,632
General and administrative expenses	35,802	51,209	263,587	570,305	414,162

Note:

(1) Included in operating expenses for the year ended December 31, 2010 was a non-cash impairment loss of US$145.7 million made against the intangible assets and goodwill relating to our acquisitions of three out of the six advertising agency businesses in 2008 and our acquisition of Digital Media Group in 2010. More details of such impairment loss can be found on page 65 Item 5. Operating and financial review and prospects A Operating results Results of Operations Year Ended December 31, 2010 Compared to Year Ended December 31, 2009 .

(2) Noncontrolling interest for 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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	As of December 31,				
	2006	2007	2008	2009	2010
	(US$, except number of shares)				
Condensed Consolidated Balance Sheet Data:					
Cash and cash equivalents	5,215,693	131,139,659	163,248,286	68,834,087	67,211,336
Total assets	17,043,776	175,300,276	293,639,567	388,915,736	442,959,951
Total current liabilities	1,241,783	10,618,779	42,304,706	102,935,518	185,514,939
Series A convertible redeemable preferred shares	15,220,327				
Common shares	2,200	6,839	7,182	7,214	8,490
Total VisionChina Media Inc. shareholders equity	581,666	164,028,819	245,073,014	272,981,356	214,785,004
Number of common shares issued and outstanding	22,000,000	68,386,838	71,819,442	72,140,684	84,894,888

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

	As of December 31,		
	2008	2009	2010
Selected Operating Data:			
Number of digital television displays in our mobile digital television advertising network:			
Exclusive agency cities	57,250	79,571	121,588
Direct investment cities	4,406	2,594	1,784
Total	61,656	82,165	123,372
Number of digital displays in our supplemental subway advertising platform	4,608	7,134	14,023

	For the Year Ended December 31,		
	2008	2009	2010
Total hours of broadcasting(1)	119,170	138,164	195,366
Average revenue per hour(1)(2) (US$)	843	825	677
Average advertising minutes sold per hour	7.72	6.47	6.75

(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 revenue derived from our network and supplemental subway advertising platform by the total hours of broadcasting in the cities of our network and supplemental subway advertising platform.

Exchange Rate Information

A number of RMB-denominated figures used in this annual report are accompanied with U.S. dollar translations. These translations are based on the noon buying rate in The City of New York for cable transfers of RMB as certified for customs purposes by the Federal Reserve Bank of New York on December 31, 2010, which was RMB6.6000 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 RMB6.4737 to US$1.00 as of June 24, 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	6.4786	6.4957	6.5073	6.4786
June (through June 24)	6.4737	6.4757	6.4830	6.4628

(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.

We have a limited operating history, which may make it difficult for you to evaluate our business and prospects.

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

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

For the period from April 8, 2005, the date we commenced operations, to December 31, 2005, in 2006 and 2010, we incurred a net loss of US$0.4 million, US$4.1 million and US$151.3 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 29.7%, 41.4% and 70.8% of our total revenues in the years ended December 31, 2008, 2009 and 2010, 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 2010, we further recorded goodwill of US$28.1 million as a result of contingent consideration resolved for our acquisitions of the six advertising agency businesses in 2008. Also, in January 2010, after we completed our acquisition of Digital Media Group Company Limited, or Digital Media Group, we recorded additional goodwill and intangible assets totaling US$180.6 million. In 2011, we expect to record additional goodwill in connection with our acquisitions of those six advertising agency businesses as a result of contingent consideration resolved. We are required under U.S. GAAP to review our amortizable intangible assets for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Goodwill is required to be tested for impairment annually or more frequently if facts and circumstances warrant a review. Factors that may be considered a change in circumstances indicating that the carrying value of goodwill and our amortizable intangible assets may not be recoverable, such as a decline of growth in our industry, may have an adverse impact on the operating result of the acquired businesses. We evaluate the amounts of the goodwill and amortizable intangible assets for impairment based on the forecasts of financial performances of the acquired businesses which in turn are based on various assumptions. See Item 5. Operating and Financial Review and Prospects Operating Results Critical Accounting Policies Goodwill and Intangible Assets. We recorded an impairment charge of US$89.1 million in the second quarter of 2010 against the goodwill and intangible assets in connection with three of the six agencies we acquired in 2008 due to significant decline in demand from certain key customers managed by these three agencies as a result of the change in relevant regulations in the PRC in 2010 (please see Item 4. Information on the Company B. Business Overview Regulation Regulations on the Advertising Industry Advertising content on page 48 for the details of the Administrative Measures on Radio and Television Advertisement Broadcasting issued by the SARFT and effective on January 1, 2010). We further recorded an impairment charge of $56.6 million in the fourth quarter of 2010 against the goodwill and intangible assets arising from our acquisition of Digital Media Group due to the poorer than expected performance of the Digital Media Group reporting unit. In addition, we believed that there was false, deceptive and misleading information concerning Digital Media Group s financial condition and performance provided by the former management and selling shareholders of Digital Media Group, and as a result, we launched a lawsuit against the selling shareholders of Digital Media Group in December 2010. As we have a limited operating history upon which we can use to forecast the financial performances of these acquired businesses, any further adverse change in the regulatory environment or the assumptions underlying the forecasts may result in additional impairment charges to be recorded in our consolidated statement of operations, which will cause a decrease in the net income attributable to our shareholders or an increase in the net loss 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 44% of our revenues in 2010 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.

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

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

All forms of outdoor advertisements must be registered before dissemination with the local branches of the State Administration of Industry and Commerce, or SAIC, which regulates advertising companies, and advertising distributors are required to submit a registration application form as well as the content of the advertisement to the local SAIC branch in order to receive an advertising registration certificate. The applicable PRC laws and regulations are not clear as to whether advertising on public transportation systems or other out-of-home locations would be considered outdoor advertising . In practice, local SAIC branches have discretion in determining whether such advertising constitutes outdoor advertising which would require registration with the relevant local SAIC branch. Local SAIC branches in different regions of the PRC may reach different conclusions with respect to this issue and such conclusions may also be subject to further revisions or amendments. All of our local operating partners are affiliates or subsidiaries of state-owned television stations operating under SARFT, and the senior management of the state-owned television stations consists of appointed government officials. The competent government authority grants state-owned television stations the authority to review and approve the broadcasting advertisements. These state-owned television stations have confirmed that advertisements can be broadcast on mobile digital television without being classified as outdoor advertising. We and each of our local operating partners do not believe that advertising activity on public transportation constitutes outdoor advertising and therefore do not believe that registration with the SAIC is necessary. All of the existing SAIC registrations by our local operating partners have already expired in 2008. As a result, 99.4% of our revenues in 2008 and 100% of our revenues in 2009 and 2010 were derived from cities where our local operating partners do not have an advertising registration certificate from the SAIC. Therefore, substantially all of our revenues would be impacted in case of a regulatory enforcement action by SAIC. None of our local operating partners or direct investment entities has renewed or completed the outdoor advertising registration, and as of December 31, 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 exclusive agency agreements with each of our local operating partners or our joint venture agreements with our local operating partners require them to comply with all relevant laws and regulations, which includes obtaining any approvals necessary to legally provide advertising time to us. Our local operating partners have expressed to us their willingness to fully comply with all relevant PRC rules and regulations during our conversations with them. Although no written assurances have been provided, our local operating partners have orally expressed their willingness to register with the SAIC in the event that the SAIC or the competent government authority determines that such registrations are required. If advertising on public transportation systems or other out-of-home locations is determined by a local SAIC branch to be outdoor advertising, it will take SAIC as long as seven working days to review and approve an outdoor advertising registration after its acceptance of application filed by our local operating partner or direct investment entity. And if a registration is not effected as required by the local SAIC branch, our local operating partner or direct investment entity in the jurisdiction city of the local SAIC branch would be subject to a fine up to RMB 30,000, confiscation of advertising fees and may be ordered to stop disseminating the advertisements. As a result, our business in that city would be materially and adversely affected, which may have a material and adverse effect on our overall business.

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

SARFT promulgated Interim Measures of Administration of Advertisement Broadcasting of Radio and Television in 2003 that became effective on January 1, 2004. This regulation is applicable to advertisement broadcasting on all radio and television stations and channels. This regulation contains a number of restrictions, including that the total advertising time of a radio or television station or channel shall not be greater than 20% of its total broadcasting time each day. On average, we sold 6.47 and 6.75 advertising minutes per broadcasting hour, which represented approximately 11% and 11% of total broadcasting time each day for the years ended December 31, 2009 and 2010, respectively. However, there is some uncertainty because as of December 31, 2010, there have been no SARFT actions, pronouncements of guidance or statements to the effect of determining that the regulation referenced above is applicable to the mobile digital televisions industry or promulgation of new rules that are similar to this regulation to regulate or restrict the advertising time digital television networks, nor have there been any plans for future action. In this sense, our future revenues could be significantly impacted by an enforcement action by SARFT for the above regulation on the mobile digital television industry. Our PRC counsel has advised us that the provisions of this regulation restricting advertising time are only applicable to traditional radio and television broadcasting and that as of the date hereof, SARFT has not indicated that this regulation shall apply to mobile digital television. In addition, all of our local operating partners are affiliates or subsidiaries of state-owned television stations operating under SARFT, and the senior management of the state-owned television stations consists of appointed government officials. The competent government authority grants state-owned television stations the authority to review and approve the broadcasting advertisements. These state-owned television stations have orally confirmed that the foregoing restrictions on the total advertising time of a radio or television station or channel advertisements are not applicable to advertising on mobile digital television when we entered into media contracts with them. As a result, we believe that this regulation is not applicable to the mobile digital television industry. However, SARFT may determine that this regulation is applicable to the mobile digital television industry or promulgate new rules that are similar to this regulation to regulate or restrict the advertising time of mobile digital television networks. Even though our PRC legal counsel has advised that under the relevant PRC laws and regulations, we are able to enforce these media contracts against our state-owned local operating partners and there is no limitation on the enforceability of these media contracts, if any of the foregoing regulatory enforcement actions occurs, the total advertising time on our network will be limited. As the annual increase of our media costs is already fixed under our media contracts and the contracts do not contain any provisions to decrease the media costs in the event that the total advertising time on the network of local operating partners is limited, a regulatory limitation on the number of advertising minutes would limit our potential revenues, while our media costs continue to increase. Our business, advertising service revenue and operating results could therefore be materially and adversely affected.

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

Our ability to generate revenues from advertising sales depends largely upon our ability to air advertisements on large mobile digital television networks on mass transportation systems in cities. This, in turn, requires that we develop and maintain business relationships with local television stations, local mobile digital television companies, local governments, and mass transportation services through which we obtain programming, broadcasting and space for our mobile digital television advertising networks. As of December 31, 2010, we provided advertising services through our network and supplemental subway advertising platform with approximately 137,395 digital displays in 23 cities in China. We have entered into exclusive advertising agency arrangements in 20 cities and direct investment arrangements in 12 cities in China. Also, as of May 31, 2011, our mobile digital television advertising network and supplemental subway advertising platform covered 21 cities in China. We cannot assure you that we can maintain these relationships on satisfactory terms, or at all. Our local operating partners may unilaterally terminate our agreements with them before the expiration of these agreements if there are events of force majeure or if we have breached the agreements. For example, our agreement with our local operating partner in Beijing requires us to install digital television displays in new buses pursuant to the terms of the agreement between our local operating partner in

Beijing and the local bus company in Beijing. If we fail to perform our contractual obligations, we will be in breach of our agreement and our local operating partner may unilaterally terminate our agreement. If we fail to maintain relationships with our local operating partners, advertisers may find advertising on our network unattractive and may not purchase advertising time from us, which would cause our revenues to decline and our business and prospects to deteriorate.

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

We operate in 11 cities through direct investment entities formed with the local television stations. PRC law provides that the television stations or entities controlled by them must own no less than 51% of the equity interests in any mobile digital television operating company. We own a 49% equity interest in those direct investment entities, except the direct investment entity in Shenzhen in which we own a 25% equity interest and the direct investment entity in Wuxi in which we own a 14% equity interest. Eight out of 11 of our direct investment agreements provide that we have the right to appoint the general manager of the direct investment entity, who will be in charge of the day-to- day operations of the direct investment entity. The right to appoint the general manager is subject to confirmation by the direct investment entity. Our local operating partners, the local television stations including Chengdu Television Station, Shenzhen Media Group, Jilin Television Station, Haerbin Television Station, Dalian Television Station, Henan Cable Television Network Group Co., Ltd., Hubei Broadcast and Television General Station, Wuxi Broadcast and Television Group, Suzhou Broadcast and Television General Station, Changzhou Television Station and Ningbo Broadcast and Television Group, control the broadcasting and are responsible for compliance matters. We cannot assure you that disputes will not arise between us and our local operating partners, and that any such disputes will be resolved in our favor. Further, our interests and the interests of our local operating partners may be different. In some cases, we may have to rely on court proceedings to resolve the disputes between us and our local operating partners. Any litigation will divert our resources and may result in a judgment against us. If any dispute between us and our local operating partners arises, our business operations could be harmed, and our financial condition and results of operations could be materially and adversely affected.

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

In most of the cities where we operate, our business relationships with local bus companies or other selected operations are secured and provided by our local operating partners or our direct investment entities. Our operations on the supplemental subway advertising platform in Guangzhou, Beijing, Tianjin, Changqing, Nanjing, Hong Kong and Shenzhen are secured by our agreements with the subway companies in these seven cities, respectively. However, we cannot assure you that we and our local operating partners can maintain these relationships with the local bus companies or subway companies on satisfactory terms, or at all, or that the local bus companies or subway companies will not terminate these relationships before their expiration. If we or our local operating partners fail to maintain these relationships, advertisers may find advertising on our network unattractive and may not purchase advertising time from us, which would cause our revenues to decline and our business and prospects to deteriorate.

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

Our local operating partners have adopted three different digital television technology standards in operating their networks. In addition, our direct investment entities have installed digital television receivers based on the technology standards our local operating partners have adopted. The National Standard of Frame Structure and Channel Code and Modulation of Digital Television Ground Broadcasting Transmission System, or the National Standard, was approved by the Standardization Administration of the PRC on August 18, 2006, and became effective on August 1, 2007. On March 27, 2006, SARFT promulgated the Notice Concerning Experimental Mobile Digital Television, or the March 2006 Notice, which required all of our local operating partners must adopt the National Standard for their mobile digital television operations. In addition, the SARFT has issued a notice to require some of our local operating partners and direct investment entities to complete the adoption of the National Standard by June 30, 2010. Our PRC counsel advises that while SARFT has promulgated the foregoing timeline for conversion to the National Standard, as of December 31, 2010 SARFT has not assessed any fines or penalties related to non-compliance with the National Standard. As of May 31, 2011, the mobile digital television network of our direct investment entities and the digital television broadcasting infrastructure of our local operating partners in 11 cities (Chengdu China Digital Mobile Television Co., Ltd., Wuxi Guangtong Digital Mobile Television Co., Ltd., Ningbo China Mobile Television Development Co., Ltd., Dalian Mobile Digital Television Co., Ltd., Hubei China Mobile Television Co., Ltd., Liaoning Beidou Xingkong Digital Television Media Co., Ltd., Tianjin North Mobile Multimedia Television Co., Ltd., Xiamen Radio and Television Digital Media Co., Ltd., Suzhou China Mobile Television Co., Ltd., Changzhou China Mobile Television Company Limited, and Haerbin China Mobile Television Company Limited) have been converted to the National Standard, but those in another nine cities (Beijing Beiguang Media Mobile Television Co., Ltd., Beijing Beiguang Metro Media Co., Ltd., Shenzhen Mobile Television Co., Ltd., Guangzhou Pearl River Mobile Multimedia Television Co., Ltd., Nanjing Guangdian Mobile Television Development Co., Ltd., Shanghai Metro Television Company Limited, Changsha Guangdian Digital Mobile Television Co., Ltd., Shanxi Dazhong Mobile Television Co., Ltd., Henan Cable China Mobile Television Company Limited and Jilin Mobile Television Co., Ltd.) have not yet completed the conversion and do not meet the requirements of the National Standard. As of May 31, 2011, our local operating partners in the nine cities have not begun the conversion process, and we and our local operating partners estimate that the conversion process will take no more than two years to complete once the conversion process begins. The actual amount of time required for the conversion process in any given city depends on a number of factors, including the size of the mobile digital television network in that city, the equipment currently used, the resources available for the conversion and the schedule for replacing the equipment. Our direct investment entities (Henan Cable China Mobile Television Company Limited and Jilin Mobile Television Co., Ltd.) and our local operating partners (Beijing Beiguang Media Mobile Television Co., Ltd, Beijing Beiguang Metro Media Co., Ltd., Shenzhen Mobile Television Co., Ltd., Guangzhou Pearl River Mobile Multimedia Television Co., Ltd., Shanghai

Metro Television Company Limited, Nanjing Guangdian Mobile Television Development Co., Ltd., Changsha Guangdian Digital Mobile Television Co., Ltd. and Shanxi Dazhong Mobile Television Co., Ltd.) will be required to spend significant capital and other resources, including on new equipment, to convert their digital television broadcasting infrastructure to the National Standard. Two of our local operating partners, Shenzhen Mobile Television Co., Ltd. and Guangzhou Pearl River Mobile Multimedia Television Co., Ltd., advised us the conversion process would start in second half of 2011. Under our exclusive advertising agency agreements, we are responsible for a portion of such expenditures in five of the nine remaining cities. The total cost of converting the equipment to the National Standard in these five cities (Beijing, Guangzhou, Nanjing, Changchun and Zhengzhou) is not expected to exceed RMB13 million. However, we and our local operating partners have not yet determined the allocation of the conversion expenses for all the nine remaining cities. Furthermore, the installation of new technology and equipment could cause disruptions to our programming, which in turn may adversely affect our reputation and business. If our local operating partners and direct investment entities do not complete the adoption of the National Standard in a timely manner or at all, or if such adoption requires substantial capital expenditures or other resources, our business, financial condition and results of operations would be materially and adversely affected.

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

On December 6, 2007, the SARFT, issued the *Circular regarding Strengthening the Management of Public Audio-Video in Automobiles, Buildings and Other Public Areas*, or the SARFT Circular. Under the SARFT Circular, the display of audio-video programs, such as television news, films and television shows, sports, technology and entertainment, through public audio-video systems located in outdoor public systems, including automobiles, airports and bus and train stations, must be approved by the SARFT. While the SARFT Circular is not applicable to audio-video transmitted through digital broadcast technology, it is applicable to audio-video transmitted through closed circuit networks. As a result, we may be required to obtain approvals for certain of our supplemental subway advertising operations. These supplemental subway advertising operations transmit programming through closed video networks rather than digital broadcast technology and include Beijing (Line 4), Tianjin, Shenzhen (Lines 1, 2, 4 and 5), Nanjing (Line 2 and the southern extended line for Line 1) and Chongqing.

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We intend to obtain the required approvals for our non-advertising content for the programming in these operations. However, the relevant government authority in China has not promulgated any implementation rules on the procedure for applying for the requisite approvals. We cannot assure you that we will obtain such approvals as required by the SARFT Circular in a timely manner or at all. If we do not obtain the requisite approvals, we may be required to eliminate part or all of the non-advertising content from programming transmitted through closed circuit networks on our supplemental subway platforms. As a result, we may not be able to capture the attention of our target audience due to the lack of non-advertising content, which could make our advertising network on these supplemental subway platforms less attractive, and consequently have an adverse effect on our business and prospects.

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

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

- a general decline in economic conditions;
- a decline in economic conditions in the particular cities where we conduct business;
- a decision to shift advertising expenditures to other available advertising media; and
- a decline in advertising spending in general.

A decrease in demand for advertising media in general, and for our advertising services in particular, would materially and adversely affect our ability to generate revenues, and have a material and adverse effect on our financial condition and results of operations.

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

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

The process of developing a relationship with a local television station or its mobile digital television operating company, and then installing digital displays on the mass transportation systems can be time- consuming and requires us to commit a substantial amount of resources, from which we may be unable to recognize the anticipated benefits.

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

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

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

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

When our local mobile digital television advertising networks reach saturation in the cities where we operate, we may be unable to grow our revenue base or satisfy all of our advertisers needs, which could hamper our ability to generate higher levels of revenues over time.

Air time allocated to programming and advertising on our mobile digital television network is generally provided in the agreements with our local operating partners. In cities where demand for time by advertisers is high, such as Beijing, Shenzhen and Nanjing, our local mobile digital television networks may reach saturation, meaning we cannot sell additional advertising time without further increasing the proportion of advertisements to programs. If our local networks reach saturation in any particular city, we will be forced to request additional advertising time from our local operating partners or increase our advertising rates to increase our revenues. However, we cannot assure you that our local operating partners will grant our requests, and advertisers may be unwilling to accept rate increases or a decrease in the amount of programming, which in turn may decrease the attentiveness of the audience to their advertisements. If we are unable to increase the length of advertising time on our network or the rates for advertising time in saturated cities, we may be unable to generate higher levels of revenues over time.

If we fail to attract advertisers to our network, we would be unable to maintain or increase our advertising prices, which would negatively affect our ability to grow revenues.

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

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

As is customary in the advertising industry in China, we generally do not have exclusive or long-term agreements with our advertising clients. A majority of our agreements with our advertising clients have a term of less than a year. As a result, we must rely on high-quality services, industry reputation, our network size and coverage and favorable pricing to attract and retain advertising clients. There is no assurance, however, that we will be able to maintain our relationships with current and/or future clients. In particular, we derive a substantial percentage of our revenues from a small number of advertising clients. For example, our top ten advertising clients in the aggregate accounted for 30.4% of our total revenues for the year ended December 31, 2010. These and our other advertising clients may elect to terminate their relationships with us if they are not satisfied with our services. We have lost client accounts in the past and may lose client accounts in the future. If a substantial number of our advertising clients choose not to continue to purchase advertising time from us, we would be unable to generate sufficient revenues and cash flows to operate our business, and our results of operations and financial condition would be materially and adversely affected.

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

We compete with other mobile digital television advertising companies and other new media advertising companies in China. We compete for advertising clients primarily on the basis of network size and coverage, location, price, range of services and brand name. We also face competition from other mobile digital television advertising network operators for access to the most desirable cities and mass transportation systems in China. Our major competitors include other companies that operate out-of-home advertising media networks such as Focus Media Holding Limited, AirMedia Group Inc., Towona Mobile Digital Co., Ltd. and Bus Online Media Co., Ltd. We also compete for overall advertising spending with other advertising media, such as television, mass transportation posters, billboards, newspapers, radio, magazines and the Internet. Some of our competitors operate digital television advertising networks installed on mass transportation systems primarily playing prerecorded content saved on compact flash cards or DVDs.

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

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

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

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Several major cities in China have accounted, and will continue to account, for a substantial majority of our revenues. Our business and financial conditions are particularly subject to general economic conditions and the relationships with our local operating partners in these cities.

A substantial majority of our revenues are currently generated from our operations in the four major cities in China: Beijing, Shanghai, Guangzhou and Shenzhen. Our revenues in Beijing, Guangzhou and Shenzhen in the aggregate accounted for 63.1% and 62.9% of our total advertising service revenue in 2008, and 2009, respectively. Following the completion of our acquisition of Digital Media Group, we expanded our network to the subway platform in Shanghai and additional subway lines in Beijing and Shenzhen, and these four major cities in the aggregate accounted for 65.8% of our total advertising service revenue in 2010. We expect to generate a substantial portion of our revenues from these four cities in the future. If any of these cities experiences an event negatively affecting its mobile digital television advertising industry, such as a serious economic downturn, a decline in the use of mass transportation systems, changes in government policy, a natural disaster or changes in advertising preferences, our mobile digital television network, our supplemental subway advertising platform and our ability to generate adequate cash flow would be materially and adversely affected. In addition, if we fail to maintain our relationships with the local operating partners in these cities (i.e., Beijing Beiguang Media Mobile Television Co., Ltd, Beijing Beiguang Metro Media Co., Ltd., Shenzhen Mobile Television Co., Ltd., Guangzhou Pearl River Mobile Multimedia Television Co., Ltd., Guangzhou Metro Television Co., Ltd., and Shanghai Metro Television Company Limited), our business, financial condition and results of operations would be materially and adversely affected.

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

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

- our ability to maintain and increase sales to existing advertising clients, attract new advertising clients and satisfy our clients demands;
- the frequency of our clients advertisements on our network;
- the price we charge for our advertising time or changes in our pricing strategies or the pricing strategies of our competitors;
- effects of strategic alliances, potential acquisitions and other business combinations, and our ability to successfully and timely integrate them into our business;
- technical difficulties, system downtime or interruptions;
- changes in government regulations in relation to the advertising industry; and
- economic and geopolitical conditions in China and elsewhere.

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

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

We have been expanding our operations and plan to continue to expand rapidly in China. To meet the demand of advertisers for broader network coverage, we must continue to expand our network by installing more digital television displays on buses and other mass transportation systems and include additional media platforms, such as personal mobile devices and in-building displays. The continued growth of our business has resulted in, and will continue to result in, substantial demand on our management, operational and other resources. In particular, the management of our growth will require, among other things:

- our ability to attract more clients, increase advertising sales and improve our sales support activities;
- increased sales and sales support activities;
- our ability to develop and improve our existing administrative and operational systems;
- information technology system enhancement;
- stringent cost controls and sufficient working capital;
- strengthening of financial and management controls;
- our ability to maintain our existing relationships with our local operating partners and to develop new relationships with local television stations or local mobile digital television companies;
- our ability to secure a reliable supply of digital television displays for our network, which are manufactured by third-party suppliers according to our specifications; and
- hiring and training of new personnel.

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

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

Our future success is dependent on the continued services of key members of our management team. In particular, our future success is dependent upon the continued service of Limin Li, our co-founder, chairman and chief executive officer and our largest shareholder. We rely on his experience in our business operations, and in particular, his business vision, management skills and working relationships with our employees, our other major shareholders, many of our clients and our local operating partners. We have granted share options and/or restricted shares to executive officers to align the interest of such officers with ours. However, we face competition for personnel from other mobile digital television advertising companies or general advertising companies and other organizations. Such competition for these individuals could cause us to offer higher compensation and other benefits in order to attract and retain them, which could materially and adversely affect our financial condition and results of operations. Furthermore, as we continue to expand our operations and develop new products, we will need to continue to attract and retain experienced management. We may be unable to attract or retain the personnel required to achieve our business objectives and failure to do so could severely disrupt our business and prospects. The process of hiring qualified personnel is also often lengthy. If our recruitment and retention efforts are unsuccessful in the future, it may be more difficult for us to execute our business strategy.

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

We may not be able to recruit and retain necessary personnel, particularly sales and marketing personnel, which could have material and adverse effects on our business, financial condition and results of operations.

Our success depends on our ability to attract and retain senior management, as well as sales, marketing, engineering and other key personnel. Because of intense competition for these employees, we may be unable to attract and retain personnel. If we are unable to retain our existing personnel, or attract, train, integrate or motivate additional qualified personnel, our growth may be restricted. The loss of any of these key employees could slow our programming, distribution and sales efforts or harm the perception of advertisers, venue providers and investors. Our senior executives may have to divert their attention to recruiting replacements for key personnel.

In particular, we depend on our sales and marketing team to sell advertising time. We market our advertising services directly to advertisers, as well as to advertising agencies. As of March 31, 2011, we had 548 dedicated sales and marketing personnel and seven consultants to support our sales and marketing efforts. We depend on our sales staff to market our services to existing and potential clients and to cover a large number of clients in a wide variety of industries. We need to further increase the size of our sales and marketing staff as our business continues to grow. If we are unable to hire, retain, integrate or motivate our current or new marketing personnel, our sales and marketing efforts may be materially impaired and our business, financial condition and results of operations could be materially and adversely affected.

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

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

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

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

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

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We may need additional cash resources due to changed business conditions, acquisitions or other future developments. If these sources are insufficient to satisfy our cash requirements, we may seek to sell additional equity or debt securities or obtain a credit facility. The sale of convertible debt securities or additional equity securities could result in dilution to our shareholders. The incurrence of indebtedness would result in increased debt service obligations and could result in operating and financing covenants that would restrict our operations and liquidity.

Our ability to obtain additional capital on acceptable terms is subject to a variety of uncertainties, including:

investors perception of, and demand for, securities of alternative advertising media companies;

conditions of the U.S. and other capital markets in which we may seek to raise funds;

our future results of operations, financial condition and cash flow;

PRC governmental regulation of foreign investment in advertising service companies in China;

PRC governmental regulation of the mobile digital television industry;

economic, political and other conditions in China; and

PRC governmental policies relating to foreign currency borrowings.

We cannot assure you that financing will be available in amounts or on terms acceptable to us, if at all. Any failure by us to raise additional funds on terms favorable to us could have a material adverse effect on our liquidity and financial condition. Without additional capital, we may not be able to:

upgrade our mobile digital television advertising network;

further develop or enhance our services;

acquire necessary technologies or businesses;

expand our operations, including the reach of our network;

hire, train and retain employees;

market our programs, services and products; or

respond to competitive pressures or unanticipated capital requirements.

Acquisition of other companies or assets of other companies is a part of our growth strategy, and these acquisitions may expose us to significant business and financial risks, including exposure to contingent acquisition consideration, which may adversely affect our results of operations and financial condition.

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

Moreover, if an acquisition candidate is identified, we may fail to enter into an acquisition or purchase agreement for such acquisition candidate on commercially reasonable terms, or at all. The negotiation and completion of potential acquisitions, whether or not ultimately consummated, could also require significant diversion of our time and resources and may potentially disrupt our existing business. Furthermore, we cannot assure you that we will be able to successfully integrate our acquisitions into our operations or that the expected synergies from future acquisitions will actually materialize. For example, in connection with the integration of our acquisition of Digital Media Group, we may desire to replace the current shareholders of Beijing Eastlong Advertising Co., Ltd., or Beijing Eastlong Advertising, the consolidated affiliated entity of Digital Media Group, with employees of ours. However, the replacement of the current shareholders of Beijing Eastlong Advertising will require us to obtain the consent of the counterparty to exclusive agency arrangement for the Shanghai subway, and there can be no assurance that we would be able to obtain such consent in a timely manner or at all. In addition, acquisitions could result in the incurrence of additional indebtedness, costs and contingent liabilities. For example, in connection with several acquisitions of advertising agency businesses completed by us in China in 2008, we are required to pay additional consideration if the acquired businesses meet specified performance targets in future years. See Item 5. Operating and Financial Review and Prospects B. Liquidity and Capital Resources Investing Activities on page 69 for more details regarding the calculation of such additional consideration based on performance targets. These acquisitions may result in significant future payments by us, although the long-term future performance of these acquired businesses is not certain. In addition, among the total consideration of US$160 million for our acquisition of Digital Media Group, US$60 million will be paid in cash or shares on the first and second anniversaries of the acquisition. See Item 5. Operating and Financial Review and Prospects B. Liquidity and Capital Resources Investing Activities on page 69 for more details. Future acquisitions may also expose us to potential risks, including risks associated with:

- the integration of new operations, services and personnel;
- unforeseen or hidden liabilities;
- the diversion of financial or other resources from our existing businesses and technologies;
- our inability to generate sufficient revenues to recover costs and expenses of the acquisitions; and
- the potential loss of, or harm to, relationships with our employees or customers.

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

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

We believe our brand and trademarks are critical to our success. The success of our business depends in part upon our continued ability to use our brand and trademarks to increase brand awareness and to further develop our brand. The unauthorized reproduction of our trademarks could diminish the value of our brand and its market acceptance, competitive advantages or goodwill.

Monitoring and preventing the unauthorized use of our intellectual property is difficult. The measures we take to protect our brand and trademarks may not be adequate to prevent their unauthorized use by third parties. Furthermore, application of laws governing intellectual property rights in China and abroad is uncertain and evolving, and could involve substantial risks to us. If we are unable to adequately protect our brand and trademarks, we may lose these rights and our business may suffer materially. Further, unauthorized use of our brand, trade names or trademarks could cause brand confusion among advertisers and harm our reputation. If our brand recognition decreases, we may lose advertisers and fail in our expansion strategies, and our business, results of operations, financial condition and prospects could be materially and adversely affected.

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.

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We have limited insurance coverage for our operations in China.

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

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

Based on our financial statements, relevant market data and the projected composition of our income and valuation of our assets, including goodwill, we do not believe that we were a passive foreign investment company for 2010, and we do not expect to be a PFIC in 2011 or to become one in the foreseeable future, although there can be no assurance in this regard. If, however, we become a passive foreign investment company, such characterization could result in adverse U.S. tax consequences to you if you are a U.S. investor. For example, if we become a PFIC, our U.S. investors will become subject to increased tax liabilities under U.S. tax laws and regulations and will become subject to burdensome reporting requirements.

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

- the excess distribution or gain will be allocated ratably over the U.S. investor s holding period for the ADSs or common shares,

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

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

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

The determination of whether or not we are a PFIC is made on an annual basis and depends on the composition of our income and assets from time to time. Specifically, we will be classified as a PFIC for U.S. tax purposes if either: (i) 75% or more of our gross income in a taxable year is passive income, or (ii) the average percentage of our assets (which include cash) by (determined on a quarterly average) value in a taxable year which produce or are held for the production of passive income (which includes cash) is at least 50%. The calculation of the value of our assets will be based, in part, on the then prevailing market value of our ADSs, which is subject to change. We cannot assure you that we will not be a PFIC for 2011 or any future taxable year. See Item 10. Additional Information E. Taxation Material United States Federal Income Tax Consequences.

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

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

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

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

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

Since the inception of our business operations, we were not involved in any litigation that had judgments against us or materially disrupted our business. In addition, regarding the litigation between our company and the selling shareholders of Digital Media Group, although no decision was reached by the court up to June 30, 2011, we believe that the Former Digital Media Group Shareholders claims and related motions are without merit and we intend to vigorously defend the claims and oppose the motions, and accordingly, no provision for loss contingencies was recorded in our consolidated financial statements. However, there can be no assurance that we will be successful in defending against any claims in the future. The damages, costs, expenses and attorneys fees arising from any future claims against us could have an adverse effect on our business, results of operations, financial condition and prospects. In addition, our reputation may be negatively affected by these or any future allegations. Our litigation with the selling shareholders of Digital Media Group is detailed in Item 3. Key information D. Risk Factors Risks Related to Our Corporate Structure The shareholders of our consolidated affiliated entities may have potential conflicts of interest with us. on page 23.

Risks Related to Our Corporate Structure

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

The PRC government requires any foreign entities that invest in the advertising services industry to have at least two years of direct operations in the advertising industry outside of China. We have not directly operated any advertising business outside of China and therefore, we currently do not qualify under PRC regulations to directly provide advertising services. In addition, the March 2006 Notice prohibits foreign investment in any mobile digital television operating company in China. We are a Cayman Islands corporation and a foreign legal person under Chinese laws. Accordingly, our subsidiary, China Digital Technology (Shenzhen) Co., Ltd., or CDTC, which is a wholly-owned foreign enterprise established by us on March 9, 2006, is currently ineligible to apply for the required licenses to directly provide advertising services in China. CDTC is an intermediate holding company that consolidates the operating results generated by our consolidated affiliated entities in a manner that complies with PRC rules and regulations. It is authorized to engage in businesses such as, but not limited to, technical development and technical consultancy services in connection with digital visual and audio equipment. Our advertising business is currently provided through our contractual arrangements with our consolidated affiliated entities in China, which hold the requisite licenses to provide advertising services in China. One of our consolidated affiliated entities, VisionChina Media Group, is currently owned by Limin Li and Yanqing Liang. We do not have any equity interest in VisionChina Media Group but we receive the economic benefits of it through various contractual arrangements. See Item 7. Major Shareholders and Related Party Transactions B. Related Party Transactions. In January 2010, we completed our acquisition of Digital Media Group, which operated and continues to operate, its advertising business through its consolidated affiliated entity in China, Beijing Eastlong Advertising. Beijing Eastlong Advertising is currently owned by Men Qijun and Wang Haifeng. Digital Media Group does not have any equity interest in Beijing Eastlong Advertising, but receives the economic benefits and bear economic risks of it through various contractual arrangements. Our consolidated affiliated entities and their subsidiaries directly operate our advertising network, enter into direct investment and exclusive and non-exclusive advertising agency agreements, and sell advertising time to our clients. We have been and expect to continue to be dependent on our consolidated affiliated entities and their subsidiaries to operate our advertising business.

There are substantial uncertainties regarding the interpretation and application of current and future PRC laws, rules and regulations, including but not limited to the laws, rules and regulations governing the validity and enforcement of our contractual arrangements with our consolidated affiliated entities. Although we have been advised by our PRC counsel that the structure for operating our business in China (including our corporate structure and contractual arrangements with our consolidated affiliated entities and their shareholders) complies with all applicable PRC laws, rules and regulations, and does not violate, breach, contravene or otherwise conflict with any applicable PRC laws, rules or regulations, we cannot assure you that the PRC regulatory authorities will not take a view that is contrary to the above opinion of our PRC counsel, and determine that our corporate structure and contractual arrangements violate PRC laws, rules or regulations. We have been further advised by our PRC counsel that if the

PRC government determines that the agreements that establish the structure for operating our PRC advertising businesses do not comply with applicable restrictions on foreign investment in the advertising industry or the mobile digital televisions industry, we may be subject to severe penalties including, among other things, being prohibited from continuing our operations in the PRC.

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

revoking the business and operating licenses of such entities;

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

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

shutting down the network of our consolidated affiliated entities;

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

The imposition of any of these penalties could result in a material and adverse effect on our ability to conduct our business and our financial condition and results of operations.

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

We have in the past relied, and will continue in the future to rely, on contractual arrangements with VisionChina Media Group, one of our consolidated affiliated entities in China, and its shareholders to operate our advertising business. In January 2010, we completed our acquisition of Digital Media Group, which operated, and will continue to operate, its advertising business through contractual arrangements with Beijing Eastlong Advertising and its equity holders.

These contractual arrangements may not be as effective as ownership of controlling equity interest would be in providing us with control over, or enabling us to derive economic benefits from the operations of, our consolidated affiliated entities and their subsidiaries. If we had direct ownership of our consolidated affiliated entities and their subsidiaries, we would be able to exercise our rights as a shareholder to (i) effect changes in the board of directors of those entities, which in turn could effect changes, subject to any applicable fiduciary obligations, at the management level, and (ii) derive economic benefits from the operations of our consolidated affiliated entities and their subsidiaries by causing our consolidated affiliated entities and their subsidiaries to declare and pay dividends. However, under the current contractual arrangements, as a legal matter, if our consolidated affiliated entities and their subsidiaries or any of their respective equity holders fails to perform their, his or her respective obligations under these contractual arrangements, we may have to incur substantial costs and resources to enforce such arrangements, and rely on legal remedies under PRC law, including seeking specific performance or injunctive relief, and claiming damages, which we cannot assure you will be effective. For example, if equity holders of VisionChina Media Group were to refuse to transfer their equity interests in VisionChina Media Group to us or our designated persons when we exercise the purchase option pursuant to these contractual arrangements, we may have to take legal action to compel them to fulfill their contractual obligations.

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

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

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

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

Chinese laws and regulations prohibit or restrict foreign ownership of media content and advertising business. To comply with these foreign ownership restrictions, we invest in ventures with local television stations and provide advertising services on our out-of-home digital television networks in the PRC through VisionChina Media Group and Beijing Eastlong Advertising, both PRC legal entities. VisionChina Media Group was established by our co-founders, and Beijing Eastlong Advertising was established by Haifeng Wang and Qiujun Men. The paid-in capital of VisionChina Media Group was funded by us or CDTC through a loan extended to the co-founders. CDTC has entered into certain exclusive agreements with VisionChina Media Group, which obligate us to absorb a majority of the risk of loss from VisionChina Media Group s activities and entitle us to receive a majority of its residual returns. In addition, we, through CDTC, has entered into certain agreements with the two individuals, including a loan agreement for the paid-in capital of VisionChina Media Group described above, an option agreement to acquire the shareholding in VisionChina Media Group when permitted by the PRC laws, and a share pledge agreement for the shares in VisionChina Media Group held by the co-founders. As provided by these agreements, all raised disputes are subject to PRC court proceedings. Similarly, the paid-in capital of Beijing Eastlong Advertising was funded by Beijing Eastlong Technology, which became our wholly owned subsidiary subsequent to our acquisition of Digital Media Group in 2010, through loans extended to its equity holders. Beijing Eastlong Technology Development Co., Ltd., or Beijing Eastlong Technology has entered into certain exclusive agreements with Beijing Eastlong Advertising, which obligate us to absorb a majority of the risk of loss from Beijing Eastlong Advertising s activities and entitle us to receive a majority of its residual returns. In addition, Beijing Eastlong Technology, has entered into certain agreements with the two individual equity holders, including a loan agreement for the paid-in capital of Beijing Eastlong Advertising described above and an option agreement to acquire the equity interest in Beijing Eastlong Advertising when permitted by the PRC laws. As provided by these agreements, all raised disputes are subject to PRC court proceedings. The major difference between binding arbitration and court proceedings in the PRC is that PRC arbitration judgments are binding, enforceable and may not be appealed, whereas the PRC court judgments are subject to appeal to the People s Court of Appeal. According to the Civil Procedure Laws of the PRC, each party to a dispute in its first trial is entitled to appeal within the statutory time limit, and the court shall hear all appeals once the case is filed in the second instance. Before the appeal is heard, the people s court of the first trial shall serve copies of the appeal petition on the respondent within five days of receiving an appeal petition, and the respondent shall submit its defense in writing within 15 days of receiving such copies of the appeal petition. Failure by the respondent to submit a defense shall not prevent the case from being tried by the people s court. In trying an appealed case against a judgment, the people s court shall make a final judgment within three months of the case being filed in the second instance; in trying an appealed case against an order, the people s court shall make a final order within 30 days of the case being filed in the second instance. See Item 7. Major Shareholders and Related Party Transactions B. Related Party Transactions for a detailed description of these contractual arrangements.

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

These contractual arrangements enable us to exercise effective control over VisionChina Media Group and its subsidiaries and receive substantially all of the economic benefits of VisionChina Media Group and its subsidiaries for a remaining period of 21 years. If VisionChina Media Group fails to comply with its obligation under the foregoing contractual arrangement, such non-performance may have adverse effect on our financial condition and results of operations. Further, the contractual arrangements enable us to exercise effective control over Beijing Eastlong Advertising and its subsidiaries and receive substantially all of the economic benefits of Beijing Eastlong Advertising and its subsidiaries for a remaining period of five years. If Beijing Eastlong Advertising fails to comply with its obligation under the foregoing contractual arrangement, such non-performance may have adverse effect on our financial condition and results of operations.

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

The beneficial owners of VisionChina Media Group are also the founders of our company and own a substantial portion of our common shares. Conflicts of interests between their dual roles as beneficial owners of both VisionChina Media Group and our company may arise. The shareholders of Beijing Eastlong Advertising were the founders of Digital Media Group. Their interests may diverge from those of our company, particularly after the completion of our acquisition of Digital Media Group in January 2010.

We cannot assure you that when conflicts of interest arise, any or all of these individuals will act in the best interests of our company or that any conflict of interest will be resolved in our favor. In addition, these individuals may breach or cause the applicable consolidated affiliated entity to breach or refuse to renew the existing contractual arrangements, which will have a material adverse effect on our ability to effectively control that consolidated entity and receive economic benefits from it. If we cannot resolve any conflicts of interest or disputes between us and the equity holders of our consolidated affiliated entities, we would have to rely on legal proceedings, the outcome of which is uncertain and which could be disruptive to our business.

Our company and its wholly owned subsidiary, Vision Best Limited, filed a summons with notice in the Supreme Court of the State of New York on December 27, 2010 against the selling shareholders of Digital Media Group. The summons and notice alleged that the selling shareholders of Digital Media Group engaged in an unlawful scheme to induce our company, through false, deceptive, and misleading statements concerning Digital Media Group s financial condition and performance, to pay a grossly inflated price to purchase Digital Media Group in 2010, and has received, or is scheduled to receive, ill-gotten gains from this unlawful scheme. In the summons and notice we further claimed for indemnification from the escrow fund that was established at the time of the purchase as a result of the selling shareholders breaches of representations and warranties contained in the merger agreement.

According to the summons and notice, our company and Vision Best Limited are seeking relief including: a declaration that we are not obligated to pay further installments totaling US$60 million in consideration for the acquisition; a declaration that our company and Vision Best Limited are not obligated to pay any unpaid escrowed cash or shares into the escrow fund and ordering that such cash or shares be returned to our company and Vision Best Limited; restitution of all cash and stock wrongfully received by the defendants as a result of the unlawful scheme; compensatory damages from the selling shareholders of Digital Media Group in an amount to be determined at trial but not less than US$80 million; punitive damages from the selling shareholders of Digital Media Group in an amount to be determined at trial; and interest, attorneys fees and disbursements, costs, and other relief that the court deems just and proper.

On February 25, 2011, a counter-suit was filed by some of the selling shareholders of Digital Media Group, or Former Digital Media Group Shareholders, against the lawsuit filed by our company on December 27, 2010. The complaint alleged that our company breached certain agreements related to the acquisition of Digital Media Group, by allegedly declining to make certain installment payments that the Former Digital Media Group Shareholders claim they were entitled to receive, and allegedly declining to take other actions to facilitate the transfer of our company s stock that the Former Digital Media Group Shareholders are entitled to receive in connection with the acquisition of Digital Media Group. The Former Digital Media Group Shareholders were also seeking specific enforcement of the contracts at issue, compensatory damages in an amount to be determined at trial, permanent and preliminary injunctive relief and such other relief as the court deems just and proper.

Also on February 25, 2011, the Former Digital Media Group Shareholders filed two motions against our company and Vision Best Limited along with their counter-suit. They submitted a motion for attachment, seeking an order of attachment in the amount of $30 million against our company and Vision Best Limited and directing us to transfer assets into the State of New York to satisfy a prospective judgment. They also filed a motion for a preliminary injunction to order our company and Vision Best Limited to remove the restrictive legend on certain our company s stock received by the Former Digital Media Group Shareholders in connection with the acquisition, and to provide consents or authorizations required to convert our company s stock that the Former Digital Media Group Shareholders are entitled to receive into American Depository Shares and make them freely tradable.

We believe that the Former Digital Media Group Shareholders claims and related motions are without merit and intend to vigorously defend the claims and oppose the motions. Accordingly, no provision for loss contingencies was recorded in connection with the litigation with the Former Digital Media Group Shareholders in our consolidated financial statements. The motions were presented to the Supreme Court of the State of New York on May 25, 2011. No decision has been reached by court regarding the initial filing by our company and the counter suit by the Former Digital Media Group Shareholders as of June 30, 2011.

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

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

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

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

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

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

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.

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

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

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

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

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

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

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

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

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

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

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

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

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

On December 25, 2006, the People s Bank of China promulgated the Measure for the Administration of Individual Foreign Exchange, and on January 5, 2007, the SAFE promulgated the implementation rules on those measures. Pursuant to these regulations, PRC citizens who have been granted shares or share options by an overseas listed company according to its employee share option or share incentive plan are required, through a qualified PRC agent which may be the PRC subsidiary of such overseas listed company, to register with the SAFE and complete certain other procedures related to the share option or share incentive plan. Foreign exchange income received from the sale of shares or dividends distributed by the overseas listed company must be remitted into a foreign currency account of such PRC citizen or be exchanged into Renminbi. Our PRC citizen employees who have been granted share options, or PRC optionees, are subject to these regulations. According to the Regulations on the Foreign Exchange System of the PRC, we or our PRC optionees may be assessed fines of up to RMB300,000 and legal or administrative sanctions for failure to comply with the provisions of the foreign exchange register administration. Our PRC counsel has advised that failure to comply with SAFE registration requirements by some of our PRC optionees would not have a material adverse effect on our business or results of operations.

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

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

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

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

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

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

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

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

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

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

Before the EIT Law and its implementation regulations became effective on January 1, 2008, as an enterprise located in the Shenzhen Special Economic Zones in the PRC, CDTC and VisionChina Media Group were allowed to enjoy a preferential tax rate of 15%. In addition, VisionChina Media Group has been recognized as a culture enterprise and thus its headquarters are entitled to full exemption from enterprise income tax from 2005 to 2008. The PRC Ministry of Finance and State Administration of Taxation issued a circular Notice on preferential tax treatment of enterprise income tax in February 2008. The circular stipulates that a newly established culture enterprise could enjoy the corporate income tax exemption treatment which has been approved by the authorities until the end of its tax holiday. VisionChina Media Group obtained the tax exemption approval certificate for year 2008. VisionChina Media Group s sales branches located in various cities in the PRC are subject to enterprise income tax at standard rate. While this preferential tax exemption for VisionChina Media Group ended after 2008, in November 2008, VisionChina Media Group was recognized as new and high technology enterprises strongly supported by the state and is entitled to a preferential tax rate of 15% for 2009 and 2010. VisionChina Media Group is currently applying to be a state-encouraged high-new technology enterprise in 2011, 2012 and 2013 for a preferential tax rate of 15% in these three years. In accordance with a circular issued in December 2010, Beijing Eastlong Technology has been recognized as a state-encouraged high-new technology enterprise starting from 2010, and the status is valid for a period of three years. As such the EIT rate for Beijing Eastlong Technology is 15% in each of the years of 2010, 2011 and 2012, respectively. Furthermore, one of our operating subsidiaries in Luzhou in Sichuan province was recognized as a local government encouraged company and is entitled to exemption from the enterprise income tax for 2008 and 2009 and reduced tax rate of 7.5% in each of the years of 2010, 2011 and 2012. However, we cannot assure you that our PRC operating subsidiary and consolidated affiliated entities will continue to receive preferential tax treatments in the future. Any further legislative changes to the tax laws and or regulations could in future years by applicable authorities and become subject our PRC operating subsidiary and consolidated affiliated entities to increased income tax rates. Any increase in the enterprise income tax rate applicable to our operating subsidiary and consolidated affiliated entities in the PRC would decrease our net income and materially and adversely affect our financial condition and results of operations.

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

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

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

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

The EIT Law provides that enterprises established outside of China whose de facto management bodies are located in China are considered resident enterprises and are generally subject to the uniform 25% enterprise income tax rate as to their worldwide income. Under the implementation regulations for the EIT Law issued by the PRC State Council, de facto management body is defined as a body that has material and overall management and control over the manufacturing and business operations, personnel and human resources, finances and treasury, and acquisition and disposition of properties and other assets of an enterprise.

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

Our board of directors holds regular meetings and makes most of the significant operational, investment and financing decisions outside of the PRC. In addition, our senior management spends a significant amount of time outside of the PRC developing and managing investor relations. As such, we believe that the de facto management body of the Company is located outside of the PRC, and, accordingly, we believe the risk of being recognized as a PRC resident enterprise under the EIT Law is low. If we are treated as a resident enterprise for PRC tax purposes, we will be subject to PRC tax on our worldwide income at the 25% uniform tax rate, which could have an impact on our effective tax rate and an adverse effect on our results of operations.

For the year ended December 31, 2008, 2009 and 2010, our legal entities organized outside of the PRC incurred losses. Therefore, even if our legal entities organized outside of the PRC are treated as PRC residents for purpose of the new EIT law, our management believes there was no material impact on our results of operations.

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

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

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

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

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

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

Risks Related to Our Common Shares and ADSs

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

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

- actual or anticipated fluctuations in our quarterly operating results;
- regulatory developments in China affecting us, our industry, our corporate structure or our advertisers;
- announcements of competitive developments;
- announcements regarding litigation or administrative proceedings involving us;
- changes in financial estimates by securities research analysts;
- changes in the economic performance or market valuations of companies with comparable businesses;
- addition or departure of our executive officers;
- release or expiry of lock-up or other transfer restrictions on our outstanding common shares or ADSs; and
- sales or perceived sales of additional common shares or ADSs.

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

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

Sales of our ADSs or common shares in the public market, or the perception that these sales could occur, could cause the market price of our ADSs to decline. As of December 31, 2010, we had 84,894,888 common shares outstanding, including 64,005,166 common shares represented by 64,005,166 ADSs. Sales of our common shares or ADSs held by our significant shareholders or any other shareholder, or the availability of these securities for future sale, may have a negative effect on the market price of our ADSs.

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

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

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

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

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

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

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

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

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

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

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

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

- we have failed to provide the depositary with our notice of meeting and related voting materials in a timely fashion;
- we have instructed the depositary that we do not wish a discretionary proxy to be given;
- we have informed the depositary that there is substantial opposition to a matter to be voted on at the meeting; or
- a matter to be voted on at the meeting would have a material adverse impact on shareholders.

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

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

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

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 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.

Item 4. Information on the Company

A. History and Development of the Company

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

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

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

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

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

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

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

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

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

Due to PRC regulatory restrictions on foreign investments in the advertising and mobile digital television industries, we operate our advertising business in China through VisionChina Media Group and Beijing Eastlong Advertising. While we do not have any equity interests in the operating entities in China, our relationships with VisionChina Media Group, Beijing Eastlong Advertising and their respective equity holders are governed by a series of contractual arrangements that allow us to effectively control and derive economic benefits from both VisionChina Media Group and Beijing Eastlong Advertising (for the contractual arrangements See Item 7. Major Shareholders and Related Party Transactions B. Related Party Transactions Agreements that Provide Us Effective Control over VisionChina Media Group, Beijing Eastlong Advertising and Their Respective Subsidiaries on pages 84 and 85. Accordingly, we treat VisionChina Media Group and Beijing Eastlong Advertising as variable interest entities and have consolidated their historical financial results in our financial statements in accordance with U.S. GAAP. All our revenues are derived from VisionChina Media Group for the years ended December 31, 2008 and 2009. After we completed the acquisition of Digital Media Group in January 2010, Beijing Eastlong Advertising became our consolidated variable interest entity, and all our revenues for the year ended December 31, 2010 are derived from VisionChina Media Group and Beijing Eastlong Advertising

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

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

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

We had capital expenditures of US$3.6 million for the year ended December 31, 2010, US$1.6 million for the year ended December 31, 2009, and US$5.0 million for the year ended December 31, 2008. Our capital expenditures were made primarily to acquire digital television displays and related equipment for our network and to upgrade our accounting software and systems. The digital television displays we acquired have an estimated useful life of 5 years. As of December 31, 2010, the estimated average remaining useful life of our digital television displays is approximately 2 years. We believe our existing digital television displays, with cost value of US$19.0 million as of December 31, 2010, will not become technologically obsolete before the end of their respective useful lives. Therefore we do not expect significant capital expenditure for replacement of digital television displays in 2011. Our capital expenditures are primarily funded by net cash provided by our operating activities for the years ended December 31, 2008 and 2009, and by proceeds from issuance of our common shares and proceeds from bank loans for the year ended December 31, 2010. We expect our capital expenditures in 2011 to primarily consist of purchases of digital television displays and related equipment as we continue to expand our mobile digital television advertising network. We believe that we will be able to fund these upgrades and equipment purchases through our internal cash, and do not anticipate that these obligations will have a material impact on our liquidity needs.

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

B. Business Overview

Overview

We believe that we operate the largest out-of-home advertising network using real-time mobile digital television broadcasts to deliver content and advertising on mass transportation systems in China based on the number of displays. Due to PRC regulatory restrictions on foreign investments in the advertising and mobile digital television industries, we operate our advertising business in China through our consolidated affiliated entities. Our relationships with our consolidated affiliated entities and their shareholders are governed by a series of contractual arrangements that allow us to effectively control, and derive substantially all of the economic benefits from, our consolidated affiliated entities. Our mobile digital television advertising network, or our network, which delivers real-time content provided by the local television stations in addition to advertising, differentiates us from other out-of-home advertising networks in China, and we believe this facilitates our future expansion into different advertising media platforms. Our advertising network consists of digital television displays located on buses and in subway trains and subway platforms that receive mobile digital television broadcasts of real-time content and advertising. We also operate various closed-circuit advertising digital displays in certain subway platforms and subway trains in Beijing, Chongqing, Guangzhou, Nanjing, Shenzhen and Tianjin and in subway trains in Hong Kong. As of December 31, 2010, our network and supplemental subway advertising platform covered 23 cities in China and consisted of approximately 137,395 digital displays. As of May 31, 2011, our mobile digital television advertising network and supplemental subway advertising platform covered 21 cities in China. In addition, we have expanded the geographic reach of our advertising operations by purchasing advertising time on existing mobile digital television networks in cities outside of our network to place advertisements pursuant to the demands of our clients. According to the public announcements released by subway companies and local governments, we expect there will be 69 new subway lines commencing operation in 24 cities throughout the PRC during 2010 to 2014.

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

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

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

As of December 31, 2010, we use the following business models for our advertising operations in China:

Exclusive agency model refers to our arrangements, with terms ranging up to 12 years, in 20 cities: Beijing, Changchun, Changsha, Changzhou, Chengdu, Dalian, Guangzhou, Hangzhou, Hong Kong, Nanjing, Ningbo, Shanghai , Shenyang, Shenzhen, Suzhou, Taiyuan, Tianjin, Wuhan, Wuxi and Xiamen. We have entered into an exclusive advertising agency agreement with the partner local mobile digital television company or local subway authority in each city that typically gives us the exclusive right to sell all of the advertising time on our local partner s mobile digital television network located on buses or subways. Our exclusive agency arrangements in Changzhou, Suzhou, Wuxi and Xiamen that gives us the exclusive right to sell a portion of the advertising time that does not include sales of advertising time to local advertisers within each respective city. For our supplemental subway advertising operations, we have also entered into an exclusive advertising agency agreement with the partner subway authority or partner local mobile digital television company in subway trains and platforms in Beijing, Guangzhou, Nanjing, Shenzhen and Tianjin and in subway trains in Hong Kong.

Direct investment model refers to our arrangements in 12 cities, among which we and a partner local television station, or its affiliate, have formed a jointly-owned mobile digital television operating company in which we hold a minority equity interest in 11 cities, and we and a partner local subway authority have formed a jointly-owned mobile digital television operating company in which we hold a controlling interest in 1 city, i.e., Chongqing. We refer to these jointly-owned mobile digital television operating companies as direct investment entities in this annual report. This model gives us the opportunity to work in conjunction with the local television station to provide programs to meet the demands of our audience and advertising clients. In the majority of our direct investment cities, such as Changchun, Changzhou, Chengdu, Dalian, Ningbo, Shenzhen, Suzhou, Wuhan and Wuxi, we have also entered into an exclusive agency agreement with our direct investment entity to secure the exclusive right to sell advertising time on that network. For the cities where we have not entered into an exclusive agency agreement, we purchase advertising time at commercial prices from our direct investment entities and resell them to our advertising clients.

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

Through December 31, 2010, 2,021 advertisers had purchased advertising time on our mobile digital television advertising network or our supplemental subway advertising platform either directly or through an advertising agent. As a result, our network has attracted a large number of blue-chip companies to purchase advertising time either directly or through an agent. Our top three brand name advertisers, Sanjing, Amway and Ruinian International in aggregate accounted for approximately 12.0% of our advertising service revenue for the year ended December 31, 2010. We believe the appeal and effectiveness of our advertising network is largely evidenced by the number of advertisers who place repeated and multiple advertising campaigns on our network. We generated total revenues of US$138.1 million in 2010, US$120.7 million in 2009 and US$104.1 million in 2008, respectively. We incurred net loss attributable to our shareholders of US$151.3 million in 2010, which was primarily due to non-cash impairment charges totaling $145.7 million we recorded in 2010 as a result of the write-off of goodwill and intangible assets in connection with three out of six advertising agency businesses we acquired in 2008 and our acquisition of Digital Media Group in January 2010. We achieved a net income attributable to our shareholders of US$26.6 million in 2009 and US$46.8 million in 2008, respectively.

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Our Advertising Network

As of May 31, 2011, our network and supplemental subway advertising platform covered 21 cities in China. The following map and tables illustrate the geographic scope of our mobile digital television advertising network and supplemental subway advertising platform as of May 31, 2011:

Our Mobile Digital Television Advertising Network Cities	Exclusive Agency	Direct Investment
Beijing (bus)	ü	
Beijing (seven subway lines)(1)	ü	
Changchun	ü	ü
Changsha(2)	ü	
Changzhou(3)	ü	ü
Chengdu	ü	ü
Dalian	ü	ü
Guangzhou	ü	

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Our Mobile Digital Television Advertising Network Cities	Exclusive Agency	Direct Investment
Nanjing	ü	
Nanjing (subway Line 1)(4)	ü	
Ningbo	ü	ü
Shanghai (subway)(5)	ü	
Shenyang	ü	
Shenzhen	ü	ü
Shenzhen (subway train in Line 1)(6)	ü	ü
Suzhou(7)	ü	ü
Taiyuan	ü	
Wuhan	ü	ü
Wuxi(8)	ü	ü
Xiamen(9)	ü	
Zhengzhou		ü

(1) Our exclusive agency arrangement in the Beijing subway gives us the exclusive right to sell all the advertising time on the mobile digital television network in seven lines of the Beijing subway (Line 1,Line 2, Line 5, Line 10, Line 13, the Batong Line and the Olympic Line) from August 1, 2010 to July 31, 2015.

(2) Our exclusive agency agreement in Changsha gives us the exclusive rights to sell all the advertising time on Changsha s mobile digital television network from January 1, 2010 to December 31, 2012.

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

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

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

(6) Our exclusive agency arrangement in Shenzhen for subway trains in Line 1, which was acquired through our acquisition of Digital Media Group, gives us the exclusive right to sell all of the advertising time on the mobile digital television network in Line 1 of the Shenzhen subway from January 2, 2010 to December 31, 2012.

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

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

(9) Our exclusive agency agreement in Xiamen gives us the exclusive rights to sell a portion of the advertising time on the mobile television network operated by Xiamen TV Digital Co., Ltd., from October 1, 2009 to

December 31, 2012, to non-Xiamen based national advertisers.

(10) We terminated the exclusive agency agreement in Shanghai for bus stop shelters at the end of 2010. We terminated the exclusive agency arrangements in Hangzhou for bus from February 1, 2010. We did not choose to renew the exclusive agency arrangement in Tianjin for bus at the end of 2010.

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Our Supplemental Subway Advertising Platform Cities	Exclusive Agency	Direct Investment
Beijing (subway Line 4)(1)	ü	
Chongqing(2)	ü (2011)	ü
Guangzhou(3)	ü	
Hong Kong(4)	ü	
Shenzhen (subway Line 4)(5)	ü	
Shenzhen (three subway lines)(6)	ü	
Tianjin(7)	ü	
Nanjing (Line 2 and southern extended line of Line 1)(8)	ü	

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

(2) Our arrangement in Chongqing, which was entered into in April 2011, gives our direct investment entity the exclusive right to sell all of the advertising time on the television platform in Chongqing s Light Rail Line 2 which is currently in use and two light rail lines in which will be put into use in the future.

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

(4) Our exclusive agency arrangements in Hong Kong give us the exclusive right to sell all of the advertising time on the television platform in the Kowloon Through Train and Airport Express Line in Hong Kong. The exclusive agency arrangement for the Airport Express Line will be expired on June 30, 2011.

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

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

(7) Our exclusive agency arrangements in Tianjin give us the exclusive right to sell all of the advertising time on the television platform in Line 1 and in Light Rail Jinbin Line of the Tianjin subway.

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

Our mobile digital television advertising network and supplemental subway advertising platform include digital displays installed in the mass transportation systems in 23 cities around China as of December 31, 2010 and in 21 cities around China as of May 31, 2011. Those digital television displays in our mobile digital television advertising network receive real-time programs broadcast by the local television stations on the mobile digital television frequencies. The digital television screens in our supplemental subway advertising platform receive programming transmitted through closed circuit digital networks. As of December 31, 2010, our mobile digital television advertising network and supplemental subway advertising platform consisted of approximately 137,395 digital displays.

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

Our Advertising Network

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

Our Exclusive Agency Cities

As of December 31, 2010, we operated our advertising network under the exclusive agency model in 20 cities: Beijing, Changchun, Changsha, Changzhou, Chengdu, Dalian, Guangzhou, Hangzhou, Hong Kong, Nanjing, Ningbo, Shanghai, Shenyang, Shenzhen, Suzhou, Taiyuan, Tianjin, Wuhan, Wuxi and Xiamen. Our advertising network operating under the exclusive agency model in Beijing, Shanghai, Guangzhou and Shenzhen in aggregate accounted for approximately 65.8% of our advertising service revenue for the year ended December 31, 2010. We entered into exclusive agency agreements with Beijing Beiguang Media Mobile Television Co., Ltd. on October 13, 2006 for a term of 10 years and Shenzhen Mobile Television Co., Ltd. on December 31, 2006 for a term of four years and seven months and with Guangzhou Zhujiang Mobile Multimedia Information Co., Ltd. on July 26, 2007 for a term of eight years. We acquired the exclusive agency arrangement in the Shanghai subway through our acquisition of Digital Media Group, which gives us the exclusive right to sell all of the advertising time on the mobile digital television network in 13 lines of the Shanghai subway from January 2, 2010 to December 31, 2013. Our advertising network under the exclusive agency model expanded to Changsha and Changzhou in 2010.

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

For our supplemental subway advertising operations, as of December 31, 2010, we have also entered into exclusive agency agreements with the partner subway authority or partner local mobile digital television company in subway trains and platforms in Beijing, Guangzhou, Nanjing, Shenzhen and Tianjin and in subway trains in Hong Kong. We entered into exclusive agency agreement with the partner subway authority for Light Rail Line 2 in Chongqing in April 2011.

In October 2009, we entered into an agreement (which was amended and restated in November 2009) to acquire Digital Media Group, which was completed in January 2010. The total consideration of US$160 million (or US$167 million based on the fair value of the total consideration on the acquisition date in January 2010) is payable in three installments over two years in cash and shares. In November 2009, we deposited the initial installment of US$40 million and 8,476,013 of our common shares, registered under Vision Best Limited, our consolidated subsidiary, into an escrow account, a portion of which was released at the completion of the acquisition and the remaining portion to be released in accordance with the terms of the agreement and plan relating to our acquisition of Digital Media Group. The second installment of US$30 million will be paid on the first anniversaries of the acquisition, of which US$20 million will be in the form of cash and US$10 million in the form of cash or shares at the option of the eligible former shareholders of Digital Media Group. The number of our ordinary shares representing the share consideration of the second installment shall be equal to the quotient of US$10 million divided by the higher of (A) 125% of US$7.0788 (the Initial Conversion Price) and (B) 80% of the average of the closing sales prices for one ADS as reported on the Nasdaq Global Market for the twenty consecutive trading days ending (and including) two day prior to the payment date. The third installment of US$30 million will be paid on the second anniversaries of the acquisition, of which US$20 million will be in the form of cash and US$10 million in cash or shares at the option of the eligible former shareholders of Digital Media Group. The number of our ordinary shares representing the share consideration of the third installment shall be equal to the quotient of US$10 million divided by the higher of (A) 150% of the Initial Conversion Price and (B) 80% of the average of the closing sales prices for one ADS as reported on the Nasdaq Global Market for the twenty consecutive trading days ending (and including) one day prior to the payment date. The second and third installments totaling $60 million remain unpaid as of June 30, 2011 as a result of our lawsuit against the selling shareholders of Digital Media Group. Through this acquisition, we obtained exclusive agency rights for the mobile digital television networks in the subway trains and subway platforms in Nanjing and Shanghai and subway trains in Shenzhen. In addition, as part of the acquisition, we have obtained the exclusive agency rights for the digital display network in certain subway trains and platforms in Beijing (line 4), Tianjin, Chongqing, Nanjing (Line 2 and southern extended line of Line 1) and Hong Kong.

According to the typical terms of the exclusive agency agreements:

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

- We have the responsibility to invest in new digital television displays and install the displays in new buses in Beijing, Guangzhou, Nanjing, Shenyang and Shenzhen. For our supplemental subway advertising operations acquired in connection with our acquisition of Digital Media Group, we have the responsibility to install displays in the subway trains and platforms in Beijing (Line 4), Hong Kong, Chongqing, and Tianjin, as well as displays in the subway trains of Nanjing Line 2 and southern extended line of Line 1, and we have the responsibility to upgrade displays in Nanjing. Most of these displays were installed and upgraded prior to our acquisition of Digital Media Group.

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

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

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

Our exclusive agency agreement for mobile digital television displays in buses in Beijing provides that, upon the establishment of a joint venture company between the parties, the exclusive agency agreement will terminate and we will transfer the operations to the joint venture company.

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

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

Our Direct Investment Cities

As of December 31, 2010, we operated our business in 12 direct investment cities. Before 2010, we operated our mobile digital television advertising network under the direct investment model in 11 cities: Changchun, Changzhou, Chengdu, Dalian, Harbin, Ningbo, Shenzhen, Suzhou, Wuhan, Wuxi and Zhengzhou. In these 11 cities, in addition to the primary installations of digital television displays on buses, we also have displays installed in buildings that receive digital television broadcasts from our mobile digital television advertising network in Harbin, Wuhan and Wuxi. Under our direct investment model, we form an operating company together with the local television station authorized to operate the digital television network in that city. Due to regulatory considerations, we typically own 49% of the direct investment entity and our partner owns the other 51%, but in Shenzhen and Wuxi we own 25% and 14%, respectively. Under these direct investment agreements:

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

- We train the locally recruited sales force.

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

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

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

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

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

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

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

We have entered into an exclusive agency agreements with our direct investment entities in Changchun, Chengdu, Dalian, Ningbo, Shenzhen and Wuhan to control all of the advertising time on the mobile digital television network operated by such entities in those cities. These exclusive agency agreements with our direct investment entities usually contain the same terms in all material respects as the exclusive agency agreements that we sign with independent local mobile digital television operating companies. However, our exclusive agency arrangements with our direct investment entities in Changzhou, Suzhou, and Wuxi that give us the exclusive right to sell a portion of the advertising time on these cities mobile digital television networks does not include sales of advertising time to advertisers from Changzhou, Suzhou, and Wuxi, respectively. These exclusive agency agreements grant us the exclusive right to sell the advertising time on the direct investment network typically for a term ranging from four years to 8 years. Under these arrangements, we realize all of the advertising revenues and pay a pre- determined media cost to the direct investment entity. Under this type of contract, the direct investment entity effectively transfers the operational risk to us and enjoys a guaranteed stream of revenues. We believe that the terms of these exclusive agency agreements were negotiated on an arm s length basis. See Item 7. Major Shareholders and Related Party Transactions B. Related Party Transactions Exclusive Agency Agreements with our Direct Investment Entities .

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

Our Outreach Agency Cities

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

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

Advertising Clients, Sales and Marketing

Our Advertising Clients

The quality and broad geographic coverage of our mobile digital television advertising network has attracted a broad base of international and domestic advertisers. Since our inception, 2,021 advertisers have purchased advertising time on our mobile digital television advertising network or our supplemental subway advertising platform either directly or through an agent as of December 31, 2010. We regularly work together with some of the largest global advertising agencies, or 4A agencies, to place advertisements for their clients. We have the ability to place a client s advertisements in one or more cities, both within and beyond our network, according to their demands. As of December 31, 2010, we have placed advertisements in 30 cities across China. As a result, our network has attracted a large number of blue-chip companies to purchase advertising time either directly or through an agent pursuant to contracts. Our top three brand name advertisers, Sanjing, Amway and Ruinian International, in aggregate accounted for approximately 12.0% of our advertising service revenue for the year ended December 31, 2010. We believe the appeal and effectiveness of our advertising network is largely evidenced by the number of advertisers who place repeated and multiple advertising campaigns on our network.

The following table sets forth a breakdown of our advertisers by industry for the year ended December 31, 2010:

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Industry	% of total advertising service revenues
Food, Beverage, Restaurants, Wines and Spirits	26.0%
Pharmaceutical and Nutritional Supplements	27.9%
Household Products	8.9%
Fashion and Accessories	7.2%
Electronics and Digital Products	6.9%
Financial Services	3.7%
Tourism	3.3%
IT and internet	1.3%
Others	14.8%

Sales and Marketing

As of December 31, 2010, we employed an experienced advertising sales force of 585 employees. We also engaged consultants to assist our marketing efforts. In addition to our direct sales force, we also sell our advertising time through third party advertising agencies such as the 4A agencies. We provide in-house education and training to our sales force to ensure that they provide our current and prospective clients with comprehensive information about our services, the advantages of using our mobile digital television advertising network as a marketing channel and relevant information regarding the advertising industry as a whole. We organize our sales force into teams to provide specialized coverage for geographic regions. We believe that our regional coverage teams provide quality service for our advertisers and allow our sales and marketing teams to focus on building close relationships and staying abreast of regional market trends. We also market our advertising services from time to time by placing advertisements on our own network.

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

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

Advertising Contracts

The standard advertising package includes advertising time on our network in a particular city on either the mobile digital television advertising network or our supplemental subway advertising platform, and our clients often combine standard advertising packages to purchase advertising time across multiple cities. Our sales are made pursuant to written contracts with commitments ranging from one week to one year. Similar to traditional television advertising, we primarily sell advertising time during breaks between programs and we also sell soft advertising embedded into programs. The majority of our customers purchase the advertising time during breaks between programs and we often provide flexible durations of time to meet the specific demands of our advertising clients. Our clients may choose to air these advertisements during specific times of the day or throughout the entire day. Our advertising rates vary depending on the time of day, the broadcast city and the receiving platform. We divide our cities into different categories and charge rates consistent with the advertising market in that city. We evaluate the listed price at the end of each quarter against the prevailing advertising rates for our competitors in each city and determine any adjustments based on prevailing market trends. The price we charge for the advertising time differs in each city as a function of the size of our network, the quality and mixture of the programming, socioeconomic conditions and other prevailing market considerations.

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

Programming

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

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

Relationships with Location Providers

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

Our Exclusive Agency Cities

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

Our Direct Investment Cities

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

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Technology

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

Suppliers

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

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

Competition

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

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

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

Intellectual Property

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

Insurance

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

Regulation

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

Regulations on the Television Industry

Television content

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

Foreign investment in television operations

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

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

Foreign investments in television content production

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

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

Mobile digital television

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

- no experimental mobile digital television shall be operated without approval of SARFT;
- no formal operation of mobile digital television shall be conducted before the establishment and adoption of the national standard of mobile digital television;
- no foreign investment in mobile digital television operations is permitted;
- after the adoption of the national mobile digital television standard, all mobile digital television operations shall comply with such national standard; and
- existing mobile digital television network operations must apply for SARFT approval before April 30, 2006, and must stop operating by June 15, 2006 if they failed to submit an application by April 30, 2006 or their application was disapproved by SARFT.

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

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

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

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

Regulations on the Advertising Industry

Foreign investments in advertising

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

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

Advertising content

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

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

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

Tax

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

The PRC EIT Law became effective on January 1, 2008. Under the EIT Law and the implementation regulations under the EIT Law issued by the PRC State Council, China has adopted a uniform tax rate of 25% for all enterprises (including foreign-invested enterprises) and revoked the previous tax exemption, reduction and preferential treatments applicable to foreign-invested enterprises. However, there is a transition period for enterprises, whether foreign-invested or domestic, that received preferential tax treatments granted by relevant tax authorities prior to January 1, 2008. Enterprises that were subject to an enterprise income tax rate lower than 25% prior to January 1, 2008 may continue to enjoy the lower rate and gradually transition to the new tax rate within five years. Enterprises that were entitled to exemptions or reductions from the standard income tax rate for a fixed term prior to January 1, 2008 may continue to enjoy such treatment until the fixed term expires. However, if a foreign-invested enterprise had not become profitable before the end of December 2007, a two-year exemption from the enterprise income tax will be granted for the period between the time the enterprise becomes profitable and December 31, 2009. According to the implementation regulations, during the transition period, the enterprise income tax rate of CDTC is 18%, 20%, 22%, 24% and 25% in the year of 2008, 2009, 2010, 2011 and 2012, respectively. Preferential tax treatments may continue to be granted to industries and projects that are strongly supported and encouraged by the state, and enterprises classified as new and high technology enterprises strongly supported by the state are entitled to a 15% enterprise income tax rate. VisionChina Media Group was designated as new and high technology enterprises strongly supported by the state in November 2008 and, as a result, will be subject to an enterprise income tax rate of 15% for 2009 and 2010. Therefore, the enterprise income tax rate of VisionChina Media Group is 0%, 15%, 15%, 24% and 25% in the year of 2008, 2009, 2010, 2011 and 2012, respectively. VisionChina Media Group is currently applying to be a state-encouraged high-new technology enterprise in 2011, 2012 and 2013 for a preferential tax rate of 15% in these three years. In accordance with a circular issued in December 2010, Beijing Eastlong Technology has been recognized as a state-encouraged high-new technology enterprise starting from 2010, and the status is valid for a period of three years. As such the EIT rate for Beijing Eastlong Technology is 15% in each of the year of 2010, 2011 and 2012, respectively. One of our operating subsidiaries established in Luzhou in Sichuan province was recognized as a local government encouraged company and is entitled to exemption from the enterprise income tax for 2008 and 2009, and reduced tax rate of 7.5% for the year ended December 31, 2010 and years ending December 31, 2011 and 2012.

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

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

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

Regulations on Foreign Currency Exchange

Foreign currency exchange

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

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

Foreign exchange registration of offshore investment by PRC residents

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

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

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

Dividend Distribution

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

C. Organizational Structure

The following diagram illustrates our company s organizational structure, and the place of formation, ownership interest and affiliation of each of our principal subsidiaries and affiliated entities as of May 31, 2011.

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D. Property, Plant and Equipment

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

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

Item 4A. Unresolved Staff Comments

None.

Item 5. Operating and Financial Review and Prospects

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

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A. Operating Results

Overview

We believe that we operate the largest out-of-home advertising network using real-time mobile digital television broadcasts to deliver content and advertising on mass transportation systems in China based on the number of displays. As of December 31, 2010, our mobile digital television advertising network consists primarily of our digital television displays installed on buses and subways. As of December 31, 2010, our mobile digital television advertising network and supplemental subway advertising platform covered 23 cities in China and consisted of approximately 137,395 digital displays. As of May 31, 2011, our mobile digital television advertising network and supplemental subway advertising platform covered 21 cities in China. We derive revenues by selling advertising time on our network and our supplemental subway advertising platform and from sales of advertising equipment to our direct investment entities.

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

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

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

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

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

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

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

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

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

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

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

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

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

As we continue to expand our network, we expect to face a number of challenges. Entering into a new market requires us to develop a contractual relationship with the local television station or its mobile digital television affiliate, so expansion into new cities may require an extended amount of time. To the extent we expand our network beyond mass transportation systems, we may compete directly with other companies that have already occupied many of the most desirable locations in China s major cities. In addition, we must react to continuing technological innovations in our industry and changes in the regulatory environment. In connection with the required compliance with the National Standard for mobile digital television, our direct investment entities and our local operating partners will need to upgrade the digital television displays in their networks to conform to the National Standard. Currently, we cannot accurately estimate the amount and timing of capital expenditures required to migrate to the National Standard. We have implemented a number of measures to address these anticipated challenges: (i) we had a special team of ten employees as of December 31, 2010 that focuses on business development and expansion of our network; (ii) our management maintains an active dialogue with the relevant regulatory authorities to stay abreast of new developments and ensure compliance with all current laws and regulations; and (iii) we purchase digital television displays and other related equipment with easily upgradable components to minimize the capital expenditures required to upgrade our network in response to technological or regulatory changes in our industry.

Revenues

We had total revenues of US$104.1 million, US$120.7 million and US$138.1 million for the years ended December 31, 2008, 2009 and 2010, respectively. We generate revenues from the sales of advertising time both on our mobile digital television advertising network and on our supplemental subway advertising platform. We principally derive our advertising service revenue from sales of advertising time between the programs, and we also have generated revenues from sales of our digital television displays to our direct investment entities, which we refer to as our advertising equipment revenue. The following table sets forth a breakdown of our total revenues for the periods indicated.

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	For the year ended December 31,					
	2008		2009		2010	
	US$	% of total revenues	US$	% of total revenues	US$	% of total revenues
Revenues:						
Advertising service revenue	103,515,250	99.5	120,686,086	100.0	138,056,640	100.0
Advertising equipment revenue	565,392	0.5				
Total	104,080,642	100.0	120,686,086	100.0	138,056,640	100.0

Advertising Service Revenue

We derive the majority of our advertising service revenue from the sales of advertising time between the programs on our mobile digital television advertising network. Starting in 2007, we also generated some of our advertising service revenue from sales of advertising time on our mobile digital television advertising network in Beijing and our supplemental subway advertising platform in certain subway platforms and subway trains in Guangzhou and subway platforms in Shenzhen. Revenue from subway-related advertising sales in total accounted for 15.2%, 21.5% and 46.7% of our advertising service revenue in 2008, 2009 and 2010. Our advertising service revenue accounted for 99.5%, 100.0% and 100.0% of our total revenues for the years ended December 31, 2008, 2009 and 2010, respectively.

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

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

Even though we believe that the regulation regarding registration with the SAIC for outdoor advertisements and the regulation issued by the SARFT restricting advertising time do not apply to us, substantially all of our revenues would be impacted if the SAIC or SARFT determine that such regulations apply to us and impose regulatory sanctions on us. For example, none of our local operating partners are currently registered with the SAIC, so substantially all of our revenues could be affected if the SAIC determines that registration was necessary and decides to take regulatory actions. While we currently sell approximately 11% of total broadcasting time each day, if the SARFT determines that the 20% regulatory limitation on the number of advertising minutes applies to us, our business and results of operations could be materially and adversely affected as it would limit our potential revenues, while our media costs would continue to increase. See Item 3. Key Information D. Risk Factors Risks Relating to Our Company and Our Industry If SARFT determines that the regulations on radio and television advertising operation are applicable to advertising on mobile digital television or establishes similar regulations for mobile digital television, our business and prospects could be harmed.

Factors that Affect Our Advertising Service Revenue

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

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

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

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

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

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

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

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

Advertising Equipment Revenue

We derived 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 revenue. We source digital television displays and related equipment from third-party suppliers and sell them to our direct investment entities in order to ensure consistent quality of the equipment used in our network and achieve cost efficiency for our direct investment entities. Our advertising equipment revenue represented 0.5%, nil and nil of our total revenues for the years ended December 31, 2008, 2009 and 2010, respectively. We generally set the price of our advertising equipment at the unit procurement cost plus an additional markup. Since sales of equipment in China require the payment of the value added tax, or VAT, equal to 17%, we record our advertising equipment revenue excluding the VAT payments. We expect that advertising equipment revenue in future periods will not constitute a significant portion of our total revenues because we expect our advertising service revenue to grow faster than our advertising equipment revenue.

We recognize advertising equipment revenue 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 Revenue

Addition of New Direct Investment Entities. The addition of new direct investment entities directly affects our advertising equipment revenue. 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 revenue. 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 revenue 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 revenue.

Cost of Revenues

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

	For the year ended December 31,					
	2008		2009		2010	
	US$	% of total revenues	US$	% of total revenues	US$	% of total revenues
Total Revenues	104,080,642	100.0	120,686,086	100.0	138,056,640	100.0
Cost of revenues:						
Advertising service cost	40,602,022	39.0	61,104,381	50.6	121,000,454	87.6
Advertising equipment cost	475,432	0.5				
Total cost of revenues	41,077,454	39.5	61,104,381	50.6	121,000,454	87.6
Gross profit	63,003,188	60.5	59,581,705	49.4	17,056,186	12.4

Advertising Service Cost

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

Media Costs. Our media costs represented the largest component of our cost of revenues and accounted for approximately 29.7%, 41.4% and 70.8% of our total revenues for the years ended December 31, 2008, 2009 and 2010, respectively. Our media costs primarily consist of:

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

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

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

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

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

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

Depreciation. Depreciation for our digital television displays accounted for 1.2%, 1.5% and 2.5% of our total revenues for the years ended December 31, 2008, 2009 and 2010, 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 6.0%, 5.6% and 2.3% of our total revenues for years ended December 31, 2008, 2009 and 2010, respectively. Business taxes and surcharges generally include the 5% business tax and 3% surcharges that our PRC operating subsidiary must pay for revenues generated from advertising services provided in China after deduction of allowable media costs.

Amortization of Intangible Assets. In connection with our acquisition of Digital Media Group in January 2010, we recorded the concession contracts acquired from Digital Media Group as intangible assets. The cost of these intangible assets was measured at the estimated fair value of the concession contracts of US$90.9 million on the acquisition date, and is amortized over its expected useful life of 9 years using straight line method. The amortization of such intangible assets is recorded within advertising service cost and accounted for 7.4% of our total revenues for the year ended December 31, 2010. There was no amortization of intangible assets recorded in advertising service cost for the years ended December 31, 2008 and 2009.

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 2.1%, 2.2% and 4.6% of our total revenues for the years ended December 31, 2008, 2009 and 2010, 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 0.5%, nil and nil of our total revenues for the years ended December 31, 2008, 2009 and 2010, respectively. The major factors affecting our advertising equipment cost include the number of digital television displays we sell and the unit cost that we pay for the assembly of each display. We did not generate advertising equipment revenue in both 2009 and 2010 as our existing direct investment entities completed the initial expansion of their local networks in 2008 and scaled back their purchases of digital television displays and related equipment from us.

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 2008, the Renminbi appreciated against the U.S. dollar by approximately 6.5%, in 2009, the Renminbi depreciated against the U.S. dollar by approximately 0.1%, and in 2010, the Renminbi appreciated against the U.S. dollar by approximately 3.3%. The appreciation of the Renminbi against the U.S. dollar contributed to the increase in our net income (loss) reported in U.S. dollar terms in 2008 and 2010, and the depreciation of the Renminbi against the U.S. dollar contributed to the decrease in our net income reported in U.S. dollar terms in 2009. For additional information relating to the fluctuations in the value of the Renminbi against the U.S. dollar, see Item 3. Key Information A. Selected Financial Data Exchange Rate Information, Item 3. Key Information D. Risk Factors Risks Related to Doing Business in China Fluctuations in exchange rates of the Renminbi could materially affect our reported results of operations and Item 11. Quantitative and Qualitative Disclosures About Market Risk Foreign Exchange Risk.

Operating Expenses

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

	For the year ended December 31,					
	2008		2009		2010	
	US$	% of total revenues	US$	% of total revenues	US$	% of total revenues
Total revenues	104,808,642	100.0	120,686,086	100.0	138,056,640	100.0
Gross profit	63,003,188	60.5	59,581,705	49.4	17,056,186	12.4
Operating expenses						
Selling and marketing expenses	14,711,536	14.0	24,620,897	20.4	28,315,592	20.5
General and administrative expenses	5,414,571	5.2	7,425,222	6.2	9,499,717	6.9
Impairment loss on intangible assets and goodwill					145,720,504	105.5
Total operating expenses	20,126,107	19.2	32,046,119	26.6	183,535,813	132.9

Selling and Marketing Expenses. Our selling and marketing expenses primarily consist of salaries and benefits for our sales staff, marketing and promotional expenses and other costs related to supporting our sales force. Selling and marketing expenses accounted for 14.0%, 20.4% and 20.5% of our total revenues for the years ended December 31, 2008, 2009 and 2010, respectively. We increased our sales force to 585 employees as of December 31, 2010 from 368 employees as of December 31, 2009 and 300 employees as of December 31, 2008. The increase in the scale and scope of our sales force activities has resulted in a significant increase in selling and marketing expenses. We expect selling and marketing expenses in future periods to increase as our operations continue to grow.

General and Administrative Expenses. 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 5.2%, 6.2% and 6.9% of our total revenues for the years ended December 31, 2008, 2009 and 2010, respectively. We expect that our general and administrative expenses will increase in future periods as we hire additional personnel and incur additional costs in connection with the expansion of our business and with being a publicly traded company.

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

In the second quarter of 2010, we recorded impairment charge of US$89.1 million against the goodwill and intangible assets for three out of the six advertising agency businesses, namely, Peak, Goldwhite and Ahead, which we acquired in 2008. Due to the change in relevant regulations in the PRC in 2010 (please see Item 4. Information on the Company B. Business Overview Regulation Regulations on the Advertising Industry Advertising content on page 48 for the details of the Administrative Measures on Radio and Television Advertisement Broadcasting issued by the SARFT and effective from January 1, 2010), there was a significant decline in customer demand, intense pricing pressure and increasing competition of Peak, Goldwhite and Ahead reporting units which indicated the potential impairment loss on the goodwill and intangible assets of these reporting units. We therefore performed impairment analysis for these reporting units in June 2010. Accordingly, we recorded impairment loss of US$43.6 million, US$16.7 million and US$21.3 million against the goodwill allocated to the Peak, Goldwhite and Ahead reporting units, respectively, in the second quarter of 2010. In addition, we recorded impairment loss of US$3.1 million, US$1.4 million and US$3.0 million against the intangible assets arising from the acquisitions of Peak, Goldwhite and Ahead, respectively. The remaining three acquired agencies are not subject to this impairment loss.

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

Impairment loss on intangible assets and goodwill accounted for 105.5% of our total revenues for the year ended December 31, 2010. We did not incur such impairment loss in 2008 or 2009.

Government Grants and Subsidies

VisionChina Media Group, an operating entity of our company, was granted US$0.7 million in 2008 as a reward because we consummated our initial public offering. It was a one-off incentive from the PRC local government in Shenzhen, which allows any company in Shenzhen that has consummated an initial public offering in 2007 to apply for such incentive. We took the initiative to apply for this incentive after completing our initial public offering in 2007. Our application was approved, and we received this incentive from the PRC government in 2008.

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

We did not receive any government grants or subsidies in 2010.

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

Share-based Compensation

Our share-based compensation expenses represent the compensation expenses recognized in relation to the share options and other stock awards granted to our employees and consultants. We allocate our share-based compensation expenses to cost of revenues, general and administrative expenses or selling and marketing expenses, depending on role of the person receiving the options under our 2006 Share Incentive Plan, or the 2006 Plan. We have reserved 8,000,000 common shares for issuance under the 2006 Plan. As of December 31, 2010, there were 1,771,824 share options and 243,889 restricted shares outstanding to employees and consultants. Our total share-based compensation expenses accounted for 1.4%, 3.6% and 0.7% of our total revenues for the years ended December 31, 2008, 2009 and 2010, respectively. We expect our share-based compensation expenses to increase in future periods as a result of further issuances of options and restricted shares to employees and consultants.

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Loss from Equity Method Investees

Our equity investments primarily consist of our investments in our ten direct investment entities that we account for using the equity method as of December 31, 2010. 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 revenue by sales of advertising time on our mobile digital television advertising network, which are partly provided by our equity method investees. We also closely monitor the operating activities of the equity method investees financially. As the operations of our equity method investees form an integral part to our operating activities, our share of undistributed earnings or losses of these entities are classified as part of our operating profit (loss).

Taxation

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

Before the new EIT Law and its implementation regulations became effective on January 1, 2008, as an enterprise located in the Shenzhen Special Economic Zone, both VisionChina Media Group and CDTC were allowed to enjoy a preferential enterprise income tax rate of 15%. In addition, since VisionChina Media Group has been recognized as a culture enterprise, VisionChina Media Group received a full exemption from the EIT from 2006 to 2008. Preferential tax treatments will continue to be granted to industries and projects that are strongly supported and encouraged by the state, and enterprises otherwise classified as new and high technology enterprises strongly supported by the state will be entitled to a 15% enterprise income tax rate. VisionChina Media Group was designated as new and high technology enterprises strongly supported by the state in November 2008 and, as a result, will be subject to an enterprise income tax rate of 15% for 2009 and 2010. VisionChina Media Group is currently applying to be a state-encouraged high-new technology enterprise in 2011, 2012 and 2013 for a preferential tax rate of 15% in these three years. In accordance with a circular issued in December 2010, Beijing Eastlong Technology has been recognized as a state-encouraged high-new technology enterprise starting from 2010, and the status is valid for a period of three years. As such the EIT rate for Beijing Eastlong Technology is 15% in each of the year of 2010, 2011 and 2012, respectively. Furthermore, one of our operating subsidiaries in Luzhou in Sichuan province was recognized as a local government encouraged company and is entitled to exemption from the enterprise income tax for the years ended December 31, 2008 and 2009, and reduced tax rate of 7.5% for the year ended December 31, 2010, and years ending December 31, 2011 and 2012.

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

The EIT Law also provides that enterprises established outside of China whose de facto management bodies are located in China are considered resident enterprises, and will generally be subject to the uniform 25% enterprise income tax rate as to their worldwide income, including income received from subsidiaries and consolidated affiliates. Under the Implementation Rules of the PRC Enterprise Income Tax Law, a de facto management body is defined as a body that has material and overall management and control over manufacturing and business operations, personnel and human resources, finances and treasury, and acquisition and disposition of properties and other assets of an enterprise. If we are treated as a resident enterprise for PRC tax purposes, we will be subject to PRC tax on our worldwide income at the 25% tax rate. Because substantially all our revenues on a consolidated basis are generated in the PRC, and our company does not generate any taxable income on a stand alone basis, even if it is determined to be a resident enterprise for PRC tax purpose, we do not expect any material changes to our effective tax rate.

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

Critical Accounting Policies

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

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

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

Depreciation of fixed assets

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

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

Media display equipment	5 years
Computers and office equipment	5 years
Motor vehicles	5 years
Leasehold improvements	lesser of lease terms or the estimated useful lives of the assets

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

Investments under equity method

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

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

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

Other investments

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

Goodwill and intangible assets

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

We estimated fair value of the identifiable intangible assets acquired on the respective dates of acquisitions, which primarily consisted of concession contracts, customer base and non-compete agreements. For our acquisitions completed prior to January 1, 2009, when the additional earn-out considerations payable in connection with the acquisitions are determined, the excess of amounts paid for acquisitions over the fair market value of the net identifiable assets acquired are allocated to goodwill.

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

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

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

Goodwill is required to be reviewed for impairment at the reporting unit level at least annually and more frequently upon the occurrence of certain events. The goodwill impairment test is a two-step test. Under the first step, the fair value of the reporting unit is compared with its carrying value (including goodwill). If the fair value of the reporting unit exceeds its carrying amount, goodwill is not considered to be impaired and the second step is not required. If the fair value of the reporting unit is less than its carrying value, an indication of goodwill impairment exists for the reporting unit and the enterprise must perform step two of the impairment test (measurement). Under step two, an impairment loss is recognized for any excess of the carrying amount of the reporting unit s goodwill over the implied fair value of that goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation. The residual fair value after this allocation is the implied fair value of the reporting unit goodwill. This allocation process is only performed for the purpose of evaluating goodwill impairment and does not result in an entry to implied fair value of goodwill. We estimate the fair value of our reporting units using a discounted cash flow methodology through internal analysis, which utilizes income approach through the application of discounted cash flow method. This valuation technique is based on a number of estimates and assumptions, including the projected operating results of the reporting units, discounted rate, long-term growth rate and appropriate market comparables. We performed impairment test for the goodwill in connection with the six advertising agency businesses we acquired in 2008 in the second quarter of 2010 due to a significant decline in customer demand as a result of the change in relevant regulations in the PRC in 2010, and recorded impairment loss of US$81.6 million against the goodwill allocated to three out of the six acquired businesses. The goodwill allocated to the other three acquired business was not impaired. We also performed an annual goodwill impairment test for the Digital Media Group reporting unit in December 2010. We determined that the poorer than expected performance of the Digital Media Group reporting unit led to a potential impairment of the goodwill allocated to the Digital Media Group reporting unit. In addition, we believed that there was false, deceptive and misleading information concerning Digital Media Group s financial condition and performance provided by the former management and selling shareholders of Digital Media Group, and as a result, we launched a lawsuit against the selling shareholders of Digital Media Group in December 2010. Accordingly, we recorded impairment loss of $14.9 million against the goodwill of allocated to the Digital Media Group reporting unit. The goodwill allocated to the other reporting units were not impaired in 2010 because the fair value of these reporting unit substantially exceeded their carrying value at the time of impairment tests. Currently we do not expect to incur future impairment charges in the coming years. Changes in these estimates and assumptions could materially affect the determination of fair value for each reporting unit. Any impairment charges recorded could have a material impact on our financial condition and results of operations.

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 carryforward and tax credit forwards by applying enacted statutory tax rates that will be in effect for the period in which the differences are expected to reverse.

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 net income or decrease our net loss 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 reduce our net income or increase our net loss in the period such determination is made. Current income taxes are provided for in accordance with the laws of the relevant taxing authorities.

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

In addition, as of December 31, 2010, our consolidated VIEs in the PRC had undistributed earnings of $74.1 million to our wholly owned PRC subsidiaries. Under US GAAP, deferred tax liability should be accounted for in respect of the undistributed earnings of our financial interest in VIE affiliates and domestic subsidiaries. We believe it is more likely than not that there is no deferred tax liability resulting from the undistributed earnings because we have means available under the PRC tax law to recover the investment in our consolidated VIEs tax free, including but not limited to the following series of transactions :

The provision of technical support service by our PRC wholly owned subsidiary to our consolidated VIEs will cause an expense in the consolidated VIEs, resulting in the majority of the undistributed earnings of the consolidated VIEs being transferred to us without incurring any additional income tax expense on the basis that our PRC wholly owned subsidiary and the consolidated VIEs are in the same tax jurisdiction and subject to the same income tax rate although such transaction may incur additional business tax expense to us. The price of the technical support service will be determined on an arm s length basis.

We would ensure the significant existing contracts, including the exclusive agency agreements and the contracts for direct investment arrangements to be signed or renewed upon expiry of such contracts by our new VIEs, so that all the operations in the existing consolidated VIEs will be taken by the new VIEs without resulting any capital gain subject to income taxes; and

We or our wholly owned PRC subsidiaries exercise the call option to acquire all the equity interests in the existing consolidated VIEs from their shareholders after all the operations have been transferred to the new VIEs. Without any operations or substantial remaining undistributed earnings, the purchase price for the existing consolidated VIEs will approximate their paid-in capital, in which case it is more likely than not that no gain will be noted and thus no income tax expense will be incurred.

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 increase to additional 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.

For the options granted in 2008, 2009 and 2010, we determined the value of the common shares underlying the options by referring to the sale prices of our ADSs on the Nasdaq Global Market.

We account for stock-based compensation in accordance with FASB ASC 718, Compensation Stock Compensation (formerly SFAS No. 123R, Share-Based Payment). Under the provisions of FASB ASC 718, stock-based compensation cost is estimated at the grant date based on the award s fair value as calculated by the Black-Scholes-Merton, or BSM, option-pricing model and is recognized as expense over the requisite service period. The BSM model requires various highly judgmental assumptions including volatility and expected option life. If any of the assumptions used in the BSM model change significantly, stock-based compensation expense may differ materially in the future from that recorded in the current period. In addition, we are required to estimate the expected forfeiture rate and only recognize expense for those options expected to vest. These estimations are based on past employee retention rates and our expectations of future retention rates. As our operating history is limited, we will prospectively revise our forfeiture rates based on actual history. Further, to the extent our actual forfeiture rate is different from our estimate, stock-based compensation expense is adjusted accordingly. For share options or restricted shares granted with performance condition that do not affect the exercise price or factors other than vesting or exercisability, compensation expense is accrued if it is probable that the performance condition will be achieved, and compensation expense is not accrued if it is not probable that the performance condition will be achieved.

Allowance for doubtful accounts

We evaluate the recoverability of our accounts receivable primarily based on the ages of receivables and factors surrounding the credit risks of specific customers. We regularly analyze our customer accounts, and when we become aware of a specific customer s inability to meet its financial obligations to us, such as in the case of bankruptcy filings or deterioration in the customer s operating results or financial positions, we record a reserve for bad debts to reduce the related receivables to the amount we reasonably believe is collectible. If circumstances related to specific customers change, our estimates of the recoverability of receivables will be further adjusted. In the event that our accounts receivables become uncollectible, we record additional adjustments to receivables to reflect the amounts at net realizable value. We recorded allowance for doubtful debt of US$0.6 million, US$0.6 million and US$0.6 million within general and administrative expenses in 2008, 2009 and 2010, respectively, each representing less than 1% as a percentage to our total revenues. As of December 31, 2009 and 2010, we had allowance for doubtful debt of US$1.2 million and US$1.2 million, respectively. We assess allowance for doubtful debts based on our review of aging data and credit risks of specific customers. We had charged off account receivables of nil, US$0.1 million and US$0.6 million in 2008, 2009 and 2010, respectively as we had exhausted all means of collection. We believe that the balance allowance for doubtful account receivables is sufficient to reflect the recoverability of our accounts receivable. We do not expect the allowance for doubtful accounts, which is charged to our statement of operations, to increase significantly as a percentage of our total revenue in future years. We also do not expect our allowance for doubtful accounts to have a significant impact on our liquidity and capital resources.

Results of Operations

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

	For the Year Ended December 31,		
	2008	2009	2010
	(US$, except number of shares)		
Condensed Consolidated Statement of Operations Data			
Revenues			
Advertising service revenue	103,515,250	120,686,086	138,056,640
Advertising equipment revenue	565,392		
Total revenues	104,080,642	120,686,086	138,056,640

Cost of revenues			
Advertising service cost	(40,602,022)	(61,104,381)	(121,000,454)
Advertising equipment cost	(475,432)		
Total cost of revenues	(41,077,454)	(61,104,381)	(121,000,454)
Gross profit	63,003,188	59,581,705	17,056,186
Operating expenses	(20,126,107)	(32,046,119)	(183,535,813)

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	For the Year Ended December 31,		
	2008	2009	2010
	(US$, except number of shares)		
Government grant		538,085	
Loss from equity method investees	(484,969)	(998,606)	(109,989)
Operating profit (loss)	42,392,112	27,075,065	(166,589,616)
Interest income	3,480,212	1,860,017	2,082,605
Interest expense		(109,590)	(4,952,239)
Government grant	672,515		
Other expenses	(38,491)	(1,278)	
Net income (loss) before income taxes	46,506,348	28,824,214	(169,459,250)
Income tax benefit (expense)	212,325	(2,348,254)	18,202,289
Net income (loss)	46,718,673	26,475,960	(151,256,961)
Net loss (income) attributable to noncontrolling interest	91,277	127,043	(81,261)
Net income (loss) attributable to VisionChina Media Inc. shareholders	46,809,950	26,603,003	(151,338,222)
Net income (loss) per share:			
Basic	0.67	0.37	(1.83)
Diluted	0.65	0.37	(1.83)
Weighted average number of shares used in computation of net income (loss) per share:			
Basic	70,064,663	71,686,900	82,739,234
Diluted	72,404,916	72,676,438	82,739,234
Share-based compensation expenses during the related periods included in:			
Cost of revenues	39,847	63,477	100,711
Selling and marketing expenses	1,163,623	3,698,329	432,632
General and administrative expenses	263,585	570,305	414,162

Year Ended December 31, 2010 Compared to Year Ended December 31, 2009

Total Revenues. Our total revenues increased to US$138.1 million in 2010 from US$120.7 million in 2009.

Our advertising service revenue increased to US$138.1 million in 2010 from US$120.7 million in 2009. The increase in advertising service revenue is primarily the combined effect of (1) increased sales of advertising time on our mobile digital television advertising network achieved by the expansions of our sales and advertising networks; (2) a significant decline in customer demand, intense pricing pressure and increasing competition of our Peak, Goldwhite and Ahead reporting units due to the change in relevant regulations in the PRC in 2010.

In 2010, by acquiring Digital Media Group, we expanded our network and started to sell advertising time on the subway platforms in the cities of Shanghai, Nanjing, Tianjin, Chongqing and Hong Kong. We also sold additional advertising time in the subway lines in Beijing and Shenzhen which were previously operated by Digital Media Group. As of December 31, 2010, we provided advertising services through our network and supplemental subway advertising platform with approximately 137,395 digital displays in 23 cities in the PRC, compared to 89,299 digital displays in 19 cites as of December 31, 2009.

As a result of the aforementioned significant decline in customer demand, intense pricing pressure and increasing competition due to the change in relevant regulations in the PRC in 2010, we recorded impairment loss in the aggregate of US$81.6 million against the goodwill allocated to the Peak, Goldwhite and Ahead reporting units, and impairment loss of US$7.5 million against the intangible assets arising from the acquisitions of Peak, Goldwhite and Ahead, in the second quarter of 2010.

We did not generate any advertising equipment revenue in 2010, same as that in 2009, as our existing direct investment entities completed the initial expansion of their local networks and scaled back their purchases of digital television displays and related equipment from us.

Cost of Revenues. Our cost of revenues, which consisted of advertising service cost only in both 2009 and 2010, increased significantly to US$121.0 million in 2010 from US$61.1 million in 2009.

Our media cost increased to US$97.8 million in 2010 from US$49.9 million in 2009. We experienced an increase in media cost primarily due to a large increase in the amount of media cost paid to our exclusive agency partner companies to secure advertising time. Our network rental fees for our exclusive agency cities increased to US$91.9 million in 2010 from US$43.3 million in 2009. The number of cities operating under our exclusive agency model increased to 20 cities as of December 31, 2010 from 16 cities as of December 31, 2009, which is primarily attributable to our acquisition of Digital Media Group in January 2010. We also attribute a portion of the increase in our media cost to the annual increase in the amount of media cost under the terms of our contracts with our exclusive agency partner companies in our existing cities. Our media cost in cities operating under our direct investment and outreach agency models, which require us to purchase the advertising time from the local mobile digital television network operating in those cities, remained stable in 2010 compared to that in 2009.

Our depreciation increased to US$3.4 million in 2010 from US$1.8 million in 2009 as a result of the increase in the number of digital television displays located in our exclusive agency cities.

Our business tax decreased to US$3.2 million in 2010 from US$6.8 million in 2009, which is mainly because the effect of increase. in media cost outweighed the increase in our advertising service revenue.

Our amortization of intangible assets amounted to US$10.2 million in 2010, compared to nil in 2009. In connection with our acquisition of Digital Media Group in January 2010, we recorded the concession contracts acquired from Digital Media Group as intangible assets. The cost of these intangible assets was measured at the estimated fair value of the concession contracts of US$90.9 million on the acquisition date, and is amortized over its expected useful life of 9 years using straight line method. The amortization of such intangible assets is recorded within advertising service cost. There was no amortization of intangible assets recorded in advertising service cost in 2009.

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Our other operating costs mainly include salaries and expenses related to installation and maintenance of the displays in our network, and increased to US$6.4 million in 2010 from US$2.7 million in 2009, primarily due to the expansion of our network into new cities and also in the cities where we already operated.

Gross Profit. As a result of the foregoing, our gross profit was US$17.1 million in 2010 compared to US$59.6 million in 2009. Our gross margin decreased to 12.4% in 2010 from 49.4% in 2009. Our gross margin decreased primarily due to the general increase in media costs as we expanded our media network.

Operating Expenses. Our operating expenses increased to US$183.5 million in 2010 from US$32.0 million in 2009.

Selling and Marketing Expenses. Selling and marketing expenses increased to US$28.3 million in 2010 from US$24.6 million in 2009. Our selling and marketing expenses increased primarily due to the overall increase in sales activities and the expansion of our sales force as a result of our acquisition of Digital Media Group. The number of our selling and marketing employees increased to 585 as of December 31, 2010 from 368 as of December 31, 2009.

General and Administrative Expenses. General and administrative expenses increased to US$9.5 million in 2010 from US$7.4 million in 2009. The increase in our general and administrative expenses was mainly due to the increase in the size of our administrative staff and infrastructure to support our growing operations.

Impairment Loss on Intangible Assets and Goodwill. We recorded impairment loss on our intangible assets and goodwill totaling US$145.7 million in 2010, but we did not incur such impairment loss in 2009.

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

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

Loss from Equity Method Investees. Our loss from equity method investees decreased to US$0.1 million in 2010 from US$1.0 million in 2009, which is mainly due to the improvement of the operating results of our equity method investees.

Operating Profit (Loss). As a result of the foregoing, our operating loss amounted to US$166.6 million in 2010 as compared to an operating profit of US$27.1 million in 2009.

Interest Income. Our interest income increased to US$2.1 million in 2010 from US$1.9 million in 2009.

Interest Expense. Our interest expense was US$5.0 million in 2010, compared to US$0.1 million in 2009. The interest expense was primarily attributable to short-term bank loans from our overseas credit line and long-term bank loan from our long-term credit facilities, which we entered into in January 2010, as well as the assumption of short-term bank loans and bank overdrafts, which were borrowed from PRC financial institutions, as a result of our acquisition of Digital Media Group in 2010.

Income Taxes. We recognized income tax benefit of US$18.2 million in 2010, compared to income tax expense of US$2.3 million in 2009. The income tax benefit in 2010 was primarily due to (1) a tax credit of US$12.2 million in connection with the impairment loss on intangible assets and (2) the utilization of deferred tax liabilities in respect of the intangible assets arising from our acquisitions completed in 2008 and 2010, and (3) the recognition of deferred tax assets for the tax losses carryforwards in certain consolidated VIE entities. We believe it is more likely than not that these VIE entities can generate sufficient future taxable income to utilize such tax losses carryforwards.

Net Loss (Income) Attributable to Noncontrolling Interest. Our net income attributable to noncontrolling interest amounted to US$0.1 million in 2010 compared to net loss attributable to noncontrolling interest of US$0.1 million in 2009, primarily as a result of the improvement of operating result of a subsidiary.

Net Income (Loss) Attributable to VisionChina Media Inc. Shareholders. As a result of the foregoing, our net loss amounted to US$151.3 million in 2010 as compared to a net income of US$26.6 million in 2009.

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

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

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

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

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

Our advertising service cost increased significantly to US$61.1 million in 2009 from US$40.6 million in 2008.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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B. Liquidity and Capital Resources

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

As of December 31, 2010, we had US$67.2 million in cash and cash equivalents. Our cash primarily consists of cash on hand and cash deposited in banks and interest-bearing savings accounts. We believe that our current cash on hand, expected cash flows from operations and available credit facilities from financial institutions will be sufficient to meet our anticipated cash needs for at least the next 12 months.

As of December 31, 2010, we had short-term bank loans of US$61.2 million from our short-term overseas credit line, which is secured by a pledged deposit of the RMB equivalent of US$70.1 million in the PRC, and bank loans of US$60.5 million maturing within one year under the credit facilities provided by Bank of China Shenzhen Branch.

In January 2010, as a result of our acquisition of Digital Media Group, we assumed short-term bank loans of US$7.3 million and bank overdraft of US$35.6 million, which were borrowed from PRC financial institutions, and were repaid by end of 2010.

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

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

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 attributable to our shareholders of US$46.8 million and US$26.6 million in 2008 and 2009, respectively, but incurred net loss attributable to our shareholders of US$151.3 million in 2010, mainly as a result of the impairment loss made against goodwill and intangible assets of US$145.7 million and the decrease in our gross profit due to the significant increase in our media cost. We intend to maintain our current policies for collections of accounts receivable, which typically provide a credit period no longer than 180 days following the month in which the advertisement is displayed. We expect our accounts receivable to increase as a result of the rapid growth in our advertising service revenue. As we expect the out-of-home advertising market in China to continue growing, we plan to continue expanding our network in the cities where we already operate and into new cities. We currently rely on our cash on hand and at bank as well as cash generated from operating activities to fund our liquidity needs. However, we may need additional cash resources in the future if we experience changed business conditions or other developments. We may also need additional cash resources in the future if we find and wish to pursue opportunities for investment, acquisition, strategic cooperation or other similar actions. If we determine that our cash requirements exceed the amounts of cash on hand, we may seek to issue debt or equity securities or obtain additional short-term or long-term bank financing. Any issuance of equity securities could cause dilution for our shareholders. Any incurrence of indebtedness could increase our debt service obligations and cause us to be subject to restrictive operating and financial covenants. It is possible that, when we need additional cash resources, financing will only be available to us in amounts or on terms that would not be acceptable to us or financing will not be available at all.

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

	For the Year Ended December 31,		
	2008	2009	2010
		(US$)	
Net cash provided by (used in) operating activities	24,329,809	39,397,267	(22,210,745)
Net cash used in investing activities	(21,762,467)	(170,649,621)	(29,628,601)
Net cash provided by financing activities	24,615,240	37,133,503	48,340,743
Effect of changes in exchange rate	4,926,045	(295,348)	1,875,852
Net increase (decrease) in cash and cash equivalents	32,108,627	(94,414,199)	(1,622,751)
Cash and cash equivalents, beginning of year	131,139,659	163,248,286	68,834,087
Cash and cash equivalents, end of year	163,248,286	68,834,087	67,211,336

Operating Activities

Our net cash used in operating activities amounted to US$22.2 million in 2010, compared to net cash provided by operating activities of US$39.4 million in 2009 and net cash provided by operating activities of US$24.3 million in 2008. Our net cash used in operating activities in 2010 is primarily as a result of the decrease in our gross profit because we expanded our operations in new cities, especially after we completed our acquisition of Digital Media Group, and our media cost increased significantly in 2010.

Investing Activities

Our net cash used in investing activities amounted to US$29.6 million in 2010, US$170.6 million in 2009 and US$21.8 million in 2008, respectively. Our net cash used in investing activities increased in 2010 is primarily attributable to settlement of the consideration payable of US$68.5 million in connection with six advertising agency businesses we acquired in 2008, which was offset by the cash of US$3.8 million and restricted cash of US$42.4 million we acquired from Digital Media Group. The restricted cash we acquired from Digital Media Group mainly represented the cash pledged for short-term bank borrowings, and upon repayment of the short-term bank borrowings by end of 2010, the restriction on such cash was removed. The remaining amount of net cash used in investing activities in 2010 was mainly due to an increase in our restricted cash of US$6.0 million. This restricted cash balance was for a pledge of a bank deposit used to obtain an offshore bank credit line. The purpose of the offshore bank credit line is to finance foreign currency payments for our acquisitions mentioned above.

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

The purchase price was comprised entirely of contingent consideration based on multiples ranging from 1.0 to 2.3 on the earnings of the respective acquired businesses for the years ended December 31, 2008, 2009 and 2010, contingent upon the collection of the relevant revenues of respective acquired businesses (the Earn-out Consideration). The earnings represents advertising service revenue generated by the acquired business as deducted by the relevant operating costs and expenses (including media costs, business taxes and surcharges, sales and marketing expenses, general and administrative expenses, allowance for doubtful accounts) incurred by the corresponding acquired businesses. The Earn-out Consideration is assessed quarterly and to be settled on demand.

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

Pursuant to the terms of the acquisition agreements, the Group paid initial deposits of $16.7 million in the year ended December 31, 2008. These initial deposits will be used to offset a portion of the additional consideration payable at the end of the earn-out period, which is by the end of June 2011 (see below for details on the additional consideration payable).

The following table summarizes the methodology for calculations of Earn-out Consideration of the respective acquired businesses upon the relevant revenues are collected:

Acquired businesses	Methodology for calculation of Earn-out Consideration as set out in the acquisition agreements
Peak	Multiple of 2.23, 1.9 and 1.0 on the first RMB 40 million of, further RMB 75 million of and remaining earnings of Peak, respectively, for year ended December 31, 2008.
	Multiple of 2.23, 1.9 and 1.0 on the first RMB 46 million of, further RMB 112.5 million of and remaining earnings of Peak, respectively, for year ended December 31, 2009.
	Multiple of 2.23, 1.9 and 1.0 on the first RMB 52.9 million of, further RMB 135 million of and remaining earnings of Peak, respectively, for year ended December 31, 2010.
	The total contingent consideration for Peak is capped at RMB350.0 million.
Aim	Multiple of 2.3, 1.9 and 1.0 on the first RMB 5 million of, further RMB 46.9 million of and remaining earnings of Aim, respectively, for year ended December 31, 2008.
	Multiple of 2.3, 1.9 and 1.0 on the first RMB 7 million of, further RMB 53.6 million of and remaining earnings of Aim, respectively, for year ended December 31, 2009.
	Multiple of 2.3, 1.9 and 1.0 on the first RMB 10 million of, further RMB 60.3 million of and remaining earnings of Aim, respectively, for year ended December 31, 2010.
	The total contingent consideration for Aim is capped at RMB171.6 million.
Golden	Multiple of 2.1, 1.9 and 1.0 on the first RMB 12 million of, further RMB 30 million of and remaining earnings of Golden, respectively, for year ended December 31, 2008.
	Multiple of 2.1, 1.9 and 1.0 on the first RMB 15 million of, further RMB 37.5 million of and remaining earnings of Golden, respectively, for year ended December 31, 2009.
	Multiple of 2.1, 1.9 and 1.0 on the first RMB 20 million of, further RMB 45 million of and remaining earnings of Golden, respectively, for year ended December 31, 2010.
	The total contingent consideration for Golden is capped at RMB118.5 million.
Goldwhite	Multiple of 2.29, 1.9 and 1.0 on the first RMB 20 million of, further RMB 30 million of and remaining earnings of Goldwhite, respectively, for year ended December 31, 2008.
	Multiple of 2.29, 1.9 and 1.0 on the first RMB 23 million of, further RMB 37.5 million of and remaining earnings of Goldwhite, respectively, for year ended December 31, 2009.
	Multiple of 2.29, 1.9 and 1.0 on the first RMB 26.45 million of, further RMB 45 million of and remaining earnings of Goldwhite, respectively, for year ended December 31, 2010.

	The total contingent consideration for Goldwhite is capped at RMB 151.0 million.
Ahead	Multiple of 2.09, 1.9 and 1.0 on the first RMB 13 million of, further RMB 42.25 million of and remaining earnings of Ahead, respectively, for year ended December 31, 2008.
	Multiple of 2.09, 1.9 and 1.0 on the first RMB 32.5 million of, further RMB 78 million of and remaining earnings of Ahead, respectively, for year ended December 31, 2009.
	Multiple of 2.09, 1.9 and 1.0 on the first RMB 39 million of, further RMB 87.75 million of and remaining earnings of Ahead, respectively, for year ended December 31, 2010.
	The total contingent consideration for Ahead is capped at RMB184.0 million.
Century	Multiple of 2.2, 1.9 and 1.0 on the first RMB 8 million of, further RMB 12 million of and remaining earnings of Century, respectively, for year ended December 31, 2008, 2009 and 2010.
	Multiple of 2.2, 1.9 and 1.0 on the first RMB 12 million of, further RMB 16 million of and remaining earnings of Century, respectively, for year ended December 31, 2009.
	Multiple of 2.2, 1.9 and 1.0 on the first RMB 15 million of, further RMB 20 million of and remaining earnings of Century, respectively, for year ended December 31, 2010.
	The total contingent consideration for Century is capped at RMB 63.9 million.

The following table summarizes the maximum Earn-out Consideration for the years ended December 31, 2008, 2009 and 2010 if the relevant revenues of the acquired business in 2008, 2009 and 2010 are fully collected:

	Peak	Aim	Golden	Goldwhite	Ahead	Century	Total
Total Earn-out Consideration: (US$)							
2008	22,495,063	12,682,567	8,976,319	9,365,189	12,191,410	3,727,453	69,438,001
2009	25,823,672	11,835,676	7,732,219	11,122,901	13,623,225	5,096,020	75,233,713
2010	2,309,706	983,706	495,138	1,337,715	1,892,764	463,174	7,482,203
Unrecognized consideration payable at December 31, 2010		549,031			2,070,378		2,619,409

The following table summarizes the details of the Earn-out Consideration payables from that date of acquisition to December 31, 2010:

	Peak	Aim	Golden	Goldwhite	Ahead	Century	Total
Earn-out Consideration payable at December 31, 2008	$ 14,077,134	$ 3,486,233	$ 4,037,393	$ 4,808,952	$ 4,933,377	$ 2,167,694	$ 33,510,783
Additional Earn-out	8,417,929	9,196,334	4,938,926	4,556,237	7,258,033	1,559,759	35,927,218

Consideration for 2008							
Earn-out Consideration for 2009	25,823,672	4,881,252	5,154,755	4,792,551	6,917,422	4,445,735	52,015,387
Less: Cash settlements in 2009	(20,280,617)	(12,268,699)	(8,495,113)	(8,065,394)	(11,840,634)	(3,298,945)	(64,249,402)
At December 31, 2009	$ 28,038,118	$ 5,295,120	$ 5,635,961	$ 6,092,346	$ 7,268,198	$ 4,874,243	$ 57,203,986
Additional Earn-out Consideration for 2009		6,405,393	2,577,464	6,330,350	5,890,039	650,285	21,853,531
Earn-out Consideration for 2010	2,309,706	983,706	495,138	1,337,715	638,150	463,174	6,227,589
Less: Cash settlements in 2010	(23,776,583)	(10,921,164)	(7,281,461)	(9,904,807)	(11,930,914)	(4,694,249)	(68,509,178)
Offset by prepayment	(6,571,241)	(1,225,057)	(1,427,102)	(3,855,604)		(1,271,392)	(14,350,396)
At December 31, 2010	$	$ 537,998	$	$	$ 1,865,473	$ 22,061	$ 2,425,532
Recorded in the balance sheet							
At December 31, 2010							
- Current	$	$ 537,998	$	$	$ 1,865,473	$ 22,061	$ 2,425,532
- Non-current	$	$	$	$	$	$	$

We have made cash settlement of US$64.2 million and US$68.5 million for the Earn-out Consideration in 2009 and 2010, respectively. Earn-out consideration payable of US$14.4 million was offset against the initial deposit we paid in 2008 because all the revenues for the Earn-out Consideration in four of the acquired advertising agency businesses were fully collected by end of December 31, 2010. Earn-out consideration is determined based on the net revenues of the acquired advertising agency businesses and the cash collected in respect to the net revenues generated by these businesses. The Earn-out Consideration is calculated based on multiples ranging from 1.0 to 2.3 on the earnings , as stipulated in the acquisition agreements, of each of the businesses acquired. Payment of the Earn-out Consideration is based on the percentage of revenues collected. Therefore, receivables recorded as of December 31, 2008 related to 2008 revenues that were subsequently collected in 2009 result in a liability for an additional portion of the 2008 Earn-out Consideration. For the 2009 Earn-out Consideration, because not all of the 2009 revenues were collected as of December 31, 2009, we recorded payable of 2009 Earn-out Consideration of US$52.0 million and US$21.9 million in 2009 and 2010, respectively, based on the percentage of 2009 revenues collected in each of these two years, and the remaining 2009 Earn-out Consideration of US$1.3 million is expected to become payable in 2011 when the receivables recorded as of December 31, 2009 related to the 2009 revenues are collected. For the maximum 2010 Earn-out Consideration of US$7.5 million, because not all of the 2010 revenues for the six acquired businesses were collected as of December 31, 2010, additional Earn-out Consideration payable of US$1.3 million is expected to be recorded in 2011 as the receivables recorded at December 31, 2010 related to the 2010 revenues are collected in 2011.

The Earn-out Consideration payable of US$2,425,532 as of December 31, 2010 was expected to be settled in 2011 and is classified as current liability on the consolidated balance sheet.

In October 2009, we entered into an agreement and plan of merger (which was amended and restated in November 2009) to acquire Digital Media Group through a merger of a subsidiary with and into Digital Media Group, which was completed in January 2010. Under the agreement and plan of merger, the total consideration of US$160 million which is a notional amount is payable in three installments over two years by means of cash and our common shares. In November 2009, we deposited cash in the amount of US$40 million and 8,476,013 of our common shares, registered under Vision Best Limited, our consolidated subsidiary, as the initial installment, into an escrow account, a portion of which was released at the completion of the acquisition and the remaining portion to be released in accordance with the terms of the agreement and plan and merger. Two subsequent installments of US$30 million each will be paid on the first and second anniversaries of the acquisition, of which US$20 million will be in the form of cash and US$10 million in cash or shares at the option of the eligible former shareholders of Digital Media Group. Our preliminary valuation of the acquisition date fair value of the consideration transferred was approximately US$167 million, which was greater than the notional amount of US$160 million due to the fair value adjustments of consideration payable in the form of shares. We expect to settle the cash consideration payable with our cash balance. Although we have not paid any of the two subsequent installments totaling $60 million as a result of an ongoing lawsuit we filed against the selling shareholders of Digital Media Group in December 2010, we have sufficient cash on hand in the event that such payment is required by the Supreme Court, and therefore, we do not believe the lawsuit will have material adverse impact on our liquidity or capital resources.

Financing Activities

Our net cash provided by financing activities amounted to US$48.3 million in 2010, compared to US$37.1 million in 2009 and US$24.6 million in 2008. Our net cash provided by financing activities in 2008 primarily consisted of proceeds from our public offering for the sale of 1,150,000 ADSs in August 2008 and proceeds from exercise of share options. Our net cash provided by financing activities in 2009 is mainly attributable to (i) an increase of US$40.8 million in net proceeds under an offshore credit line and (ii) an increase of US$0.7 million in net proceeds from a domestic loan. We also used US$5.0 million for share repurchases in 2009. Our net cash provided by financing activities in 2010 primarily consisted of proceeds from bank loans of US$78.2 million, and proceeds from issuance of common shares to our certain existing shareholders and employees of US$12.9 million, which was offset by the repayment of bank loans amounting to US$42.8 million.

Capital Expenditures

We had capital expenditures of US$5.0 million, US$1.6 million and US$3.6 million for the years ended December 31, 2008, 2009 and 2010, respectively. Our capital expenditures were made primarily to acquire digital television displays and related equipment for our network and, beginning in 2007, we also made capital expenditures to upgrade our accounting software and systems. Our capital expenditures are primarily funded by net cash provided by financing activities and to a lesser extent by cash generated from our operations. We expect our capital expenditures in 2011 to primarily consist of purchases of digital television displays and related equipment as we continue to expand our mobile digital television advertising network. We believe that we will be able to fund these upgrades and equipment purchases through our internal cash, and do not anticipate that these obligations will have a material impact on our liquidity needs.

In connection with the required compliance with the National Standard, we may need to incur additional capital expenditures in order to upgrade the mobile digital television receivers. As of May 31, 2011, our local operating partners in the nine cities have not begun the conversion process. Under our exclusive advertising agency agreements, we are responsible for a portion of such expenditures in five of these nine cities. The total cost of converting the equipment to the National Standard in these five cities (Beijing, Guangzhou, Nanjing, Changchun and Zhengzhou) is not expected to exceed RMB13 million. However, we and our local operating partners have not yet determined the allocation of the conversion expenses for all the nine remaining cities. We believe that these capital expenditures would not materially affect our liquidity For details of the required compliance with the National Standard, please refer to Item 3. Key Information D. Risk Factors Risks Related to Our Company and Our Industry A significant portion of the mobile digital television networks of our direct investment entities and the digital television broadcasting infrastructure of our local operating partners currently do not meet the newly adopted PRC national standards for mobile digital television operations. We will be required to spend significant capital and other resources to convert the digital television broadcasting infrastructure of our local operating partners to these national standards, which could materially and adversely affect our business, financial condition and results of operations on page 11.

Recently Issued Accounting Pronouncements

In April 2010, the FASB issued Accounting Standards Update (ASU) 2010-13, *Compensation-Stock Compensation (Topic 718) Effect of Denominating the Exercise Price of a Share-Based Payment Award in the Currency of the Market in Which the Underlying Equity Security Trades a consensus of the FASB Emerging Issues Task Force*. ASU 2010-13 provides amendments to FASB ASC 718 to clarify that an employee share-based payment award with an exercise price denominated in the currency of a market in which a substantial portion of the entity s equity securities trades should not be considered to contain a condition that is not a market, performance, or service condition. Therefore, an entity would not classify such an award as a liability if it otherwise qualifies as equity. The amendments in this update do not expand the recurring disclosures required by FASB ASC 718. Disclosures currently required under FASB ASC 718 are applicable to a share-based payment award, including the nature and the term of share-based payment arrangements. The amendments in this update are effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2010. We are currently evaluating the impact of the adoption of ASU 2010-13 on our financial statements.

In April 2010, the Emerging Issues Task Force reached a final consensus on milestone method of revenue recognition and published ASU 2010-17, *Revenue Recognition Milestone Method* (Topic 605). The scope of this

ASU is limited to arrangements that include milestones relating to research or development deliverables. The consensus specifies guidance that must be met for a vendor to recognize consideration that is contingent upon achievement of a substantive milestone in its entirety in the period in which the milestone is achieved. The guidance applies to milestones in arrangements within the scope of this consensus regardless of whether the arrangement is determined to have single or multiple deliverables or units of accounting. The final consensus will be effective for fiscal years, and interim periods within those years, beginning on or after June 15, 2010. Early application is permitted. We are currently evaluating the impact of the adoption of ASU 2010-17 on our financial statements.

In December 2010, the FASB issued ASU 2010-29, *Disclosure of Supplementary Pro Forma Information for Business Combinations*. The objective of this guidance is to address diversity in practice regarding the interpretation of the pro forma revenue and earnings disclosure requirements for business combinations. The amendments in this update specify that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the year had occurred as of the beginning of the comparable prior annual reporting only. The amendments also expand the supplemental pro forma disclosures to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. The amendments affect any public entity as defined by FASB ASC 805 that enters to business combinations that are material on an individual or aggregated basis. The amendments will be effective for business combinations consummated in periods beginning after December 15, 2010 and are to be applied prospectively as of the date of adoption. We are currently evaluating the impact of the adoption of ASU 2010-29 on our financial statements.

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In December 2010, the FASB issued ASU 2010-28, *When to perform Step 2 of the Goodwill Impairment test for Reporting Units with Zero or Negative Carrying Amounts*. The amendments in this update modify Step 1 so that for those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity is required to consider whether there are any adverse qualitative factors indicating that an impairment may exist. The qualitative factors are consistent with existing guidance, which requires that goodwill of a reporting unit be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. The guidance is effective for impairment tests performed during fiscal years (and interim periods within those years) that begin after December 15, 2010. We are currently evaluating the impact of the adoption of ASU 2010-28 on our financial statements.

C. Research and Development

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

D. Trend Information

Other than as disclosed elsewhere in this annual report, we are not aware of any trends, uncertainties, demands, commitments or events for the period from January 1, 2010 to December 31, 2010 that are reasonably likely to have a material adverse effect on our net revenues, net loss, profitability, liquidity or capital resources, or that caused the disclosed financial information to be not necessarily indicative of future operating results or financial conditions.

E. Off-Balance Sheet Arrangements

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

F. Tabular Disclosure of Contractual Obligations

The following table sets forth our contractual obligations and commercial commitments as of December 31, 2010:

	Total	Less than 1 year	1-3 years (US$)	3-5 years	More than 5 years
Long-term purchase agreement	323,935,000	87,839,000	159,975,000	64,360,000	11,761,000
Operating lease obligations	2,067,352	1,040,175	640,477	276,519	110,181
Consideration for an acquisition	60,000,000	30,000,000	30,000,000		
Total contractual obligations	386,002,352	118,879,175	190,615,477	64,636,519	11,871,181

We have entered into several agreements under our exclusive agency model to purchase advertising time from local mobile digital television companies for a period of five to ten years. As of December 31, 2010, future minimum purchase commitments under these agreements totaled approximately US$323.9 million.

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

G. Safe Harbor

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

- our growth strategies, including our plan or intention to expand the coverage and penetration of our national network, to maximize our average revenues per hour, to continue to pursue exclusive arrangements with additional mobile digital television companies, to continue to explore new digital media technologies and techniques, to expand our network to other advertising media platforms and to pursue strategic relationships and acquisitions;
- our future business development, results of operations and financial condition;
- expected changes in our revenues and certain cost or expense items;
- our ability to manage the expansion of our operations;
- changes in general economic and business conditions in China; and
- trends and competition in the mobile digital television advertising industry.

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

Item 6. Directors, Senior Management and Employees

A. Directors and Senior Management

Directors and Executive Officers

The following table sets forth information regarding our directors and executive officers as of May 31, 2011.

Name	Age	Position/ Title
Limin Li	50	Chairman of the Board of Directors, Chief Executive Officer
Haijun Liu	48	Chief Development Officer
Yan Wang	33	Vice President of Finance

Name	Age	Position/ Title
Yanqing Liang	39	Director
William Decker	65	Independent Director
Xisong Tan	63	Independent Director
Yunli Lou	43	Independent Director

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

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

Yan Wang is our vice president of finance since January 2011. Mr Wang was our senior financial controller from December 2009 to January 2011. Mr. Wang joined us in April 2009 as a full-time employee. Before joining VisionChina Media, Mr. Wang was an audit manager at KPMG, an independent public registered accounting firm. From 2001 to 2009, he worked in the audit department in KPMG Guangzhou office for eight years, and has led the audit engagements for SEC registrants, including both audits of US GAAP financial statement and audits of the internal control over financial reporting. Mr. Wang received a bachelor degree of arts from Guangdong University of Foreign Studies in 2001.

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

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

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

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

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

B. Compensation of Directors and Executive Officers

Compensation of Directors and Executive Officers

In 2010, the aggregate cash compensation to our executive officers, including all the directors, was US$0.8 million. For options granted to officers and directors, see 2006 Share Incentive Plan.

2006 Share Incentive Plan

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

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

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

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

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

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

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

Our board of directors has only granted options to participants in our 2006 share incentive plan. As of March 31, 2011, there were 2,148,858 common shares issuable upon the exercise of outstanding share options and restricted shares at a weighted average exercise price of US$4.13 per share, and there were 1,421,560 common shares available for future issuance upon the exercise of future grants under our 2006 share incentive plan. The following table summarizes, as of March 31, 2011, the outstanding options granted to our directors and executive officers and other individuals as a group.

Name	Ordinary Shares Underlying Outstanding Options or restricted Shares	Exercise Price Underlying Outstanding Options (US$/Share)	Grant Date	Expiration Date
Limin Li	350,000	6.545	August 30, 2007	August 30, 2017
Haijun Liu[(1)]	*	1.00/	December 8, 2006/	December 8, 2016/
		8.53	October 8, 2009	October 8, 2019
Yan Wang[(2)]	*	5.48/	June 17, 2009	June 17, 2019
		8.53	October 8, 2009	October 8, 2019
William Decker[(3)]	*	6.545	October 31, 2007	October 31, 2017
		4.68	April 2, 2010	April 2, 2020
Xisong Tan[(4)]	*	1.00	December 8, 2007	December 8, 2016
		4.68	April 2, 2010	April 2, 2020
Yunli Lou[(5)]	*	5.82/	December 11, 2008/	December 11, 2018/
		8.53	October 8, 2009	October 8, 2019
Other individuals as group	1,523,858	5.23	(6)	(7)

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

(1) A portion of the options was granted on December 8, 2006 with an exercise price of US$1.00 and another portion was granted on October 8, 2009 with an exercise price of US$8.53.

(2) A portion of the options was granted on June 17, 2009 with an exercise price of $5.48 and another portion was granted on October 8, 2009 with an exercise price of US$8.53.

(3) A portion of the options was granted on October 31, 2007 with an exercise price of $6.545 and another portion was granted on April 2, 2010 with an exercise price of US$4.68.

(4) A portion of the options was granted on December 8, 2006 with an exercise price of $6.545 and another portion was granted on April 2, 2010 with an exercise price of US$4.68.

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

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

(7) Other individuals options expire on various dates.

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C. Board Practices

Committees of the Board of Directors

Audit Committee

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

- selecting our independent auditors and pre-approving all auditing and non-auditing services permitted to be performed by our independent auditors;
- reviewing with our independent auditors any audit problems or difficulties and management s response;
- reviewing and approving all proposed related-party transactions, as defined in Item 404 of Regulation S-K under the Securities Act;
- discussing the annual audited financial statements with management and our independent auditors;
- reviewing major issues as to the adequacy of our internal controls and any special audit steps adopted in light of material control deficiencies;
- annually reviewing and reassessing the adequacy of our audit committee charter;
- such other matters that are specifically delegated to our audit committee by our board of directors from time to time;
- meeting separately and periodically with management and our internal and independent auditors; and
- reporting regularly to the full board of directors.

Compensation Committee

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

- reviewing and making recommendations to the board with respect to the total compensation package for our three most senior executives;
- approving and overseeing the total compensation package for our executives other than the three most senior executives;

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

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

Corporate Governance and Nominating Committee

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

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

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

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

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

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

Duties of Directors

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

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

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

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

declaring dividends and other distributions;

appointing officers and determining the term of office of officers;

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

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

Terms of Directors and Executive Officers

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

Employment Agreements

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

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

D. Employees

As of December 31, 2008, 2009 and 2010, we had 473, 553 and 867 full-time employees, respectively. As of December 31, 2010, we had 102 employees in management and administration, 585 in sales and marketing and 180 in network maintenance and development.

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

The remuneration package of our employees includes salary, bonus, stock options, other cash benefits and benefits in-kind. In accordance with applicable PRC regulations, we participate in a pension contribution plan, a medical insurance plan, an unemployment insurance plan, a personal injury insurance plan and a housing reserve fund. Our total contribution for such employee benefits required by applicable PRC regulations amounted to US$483,065, US$743,516 and US$1,431,972 for the years ended December 31, 2008, 2009 and 2010, respectively.

E. Share Ownership

The following table sets forth information with respect to the beneficial ownership of our common shares as of January 13, 2011 upon completion of the issuance of our common shares to Focus Media, JJ Media and Front Lead by:

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

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

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

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

(2) The number of common shares outstanding in calculating the percentages for each listed person includes the common shares underlying options held by such person that are exercisable within 60 days of January 13, 2011. Percentage of beneficial ownership of each listed person is based on 102,250,087 common shares outstanding as of January 13, 2011, as well as the common shares underlying share options exercisable by such person within 60 days of January 13, 2011.

(3) Includes 17,187,142 common shares owned by Front Lead Investments Limited, a British Virgin Islands company, and 342,707 common shares issuable upon the exercise of options granted to Front Lead Investments Limited that are exercisable within 60 days of the date of December 31, 2009. Malte International Holdings Limited is the sole shareholder and sole director of Front Lead Investments Limited. The Li Liu Family Trust, an irrevocable trust, is the sole shareholder of Malte International Holders Limited. HSBC International Trustee Limited is the trustee of the Li Liu Family Trust with Limin Li as the settlor. Certain family members of Limin Li are beneficiaries of the Li Liu Family Trust. The business address of HSBC International Trustee Limited is Strathvale House, 2nd Floor, North Church Street, George Town, Grand Cayman, Cayman Islands and the business address of Mr. Li is c/o VisionChina Media Inc., 1/F Block No. 7, Champs Elysees, Nongyuan Road, Futian District, Shenzhen 518040, China.

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

(5) Includes (i) 8,102,176 common shares held by Milestone I, Milestone II, Milestone III and Milestone IV, and (ii) 277,587 common shares (in ADS form) held by Linden Street Capital Limited, a limited liability company organized under the laws of the British Virgin Islands. Yunli Lou, a managing director of Milestone Capital Partners Limited, disclaims beneficial ownership of shares held by Milestone I, Milestone II, Milestone III and Milestone IV except to the extent of her pecuniary interest in these shares and (iii) 38,750 common shares issuable upon the exercise of options granted to Yunli Lou. Yunli Lou is the sole shareholder of Linden Street Capital Limited and her business address is Room 1708 Dominion Centre, 43-59 Queen s Road East, Wanchai, Hong Kong.

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(6) Include common shares held by all of our directors and executive officers as a group and common share issuable upon the exercise of all of the options that are exercisable within 60 days of January 17, 2011 held by all of our directors and executive officers.

(7) Malte International Holdings Limited is the sole shareholder and sole director of Front Lead Investments Limited. The Li Liu Family Trust, an irrevocable trust, is the sole shareholder of Malte International Holders Limited. HSBC International Trustee Limited is the trustee of the Li Liu Family Trust with Limin Li as the settlor. Certain family members of Limin Li are beneficiaries of the Li Liu Family Trust. The business address of HSBC International Trustee Limited is Strathvale House, 2nd Floor, North Church Street, George Town, Grand Cayman, Cayman Islands and the business address of Mr. Li is c/o VisionChina Media Inc., 1/F Block No. 7, Champs Elysees, Nongyuan Road, Futian District, Shenzhen 518040, China.

(8) Includes 5,684,108 common shares held by Milestone Mobile TV Media Holdings I Limited, Milestone Mobile TV Media Holdings II Limited, and Milestone Mobile TV Media Holdings III Limited, each of which is a limited liability company organized under the laws of the British Virgin Islands. Each of Milestone I, II and III has a mailing address of P.O. Box 957, Offshore Incorporation Center, Road Town, Tortola, British Virgin Islands. Milestone I, II and III are wholly owned by Milestone China Opportunities Fund II, L.P., an exempted limited partnership formed under the laws of the Cayman Islands. The general partner of the Milestone China Opportunities Fund II, L.P. is Milestone Capital Partners Limited, a limited liability company incorporated under the laws of the Cayman Islands. The sole director of Milestone Capital Partners Limited is Cherianne Limited, a company organized under the laws of the British Virgin Islands. Yuen Ho Wan and James Ngai, as all of the directors of Cherianne Limited, share the investment and voting power of Cherianne Limited. Ms. Wan s and Mr. Ngai s business address is Room 1708 Dominion Centre, 43-59 Queen s Road East, Wanchai, Hong Kong.

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

(10) Includes 9,072, 800 common shares represented by ADSs held by Columbia Wanger Asset Management, L.P. and Columbia Acorn Trust according to its Schedule 13G filed with the SEC on February 10, 2010. Columbia Acorn Trust is a Massachusetts business trust that is advised by Columbia Wanger Asset Management, L.P. Columbia Wanger Asset Management, L.P. is a Delaware limited partnership, with the principal business address at 227 West Monroe Street, Suite 3000, Chicago, IL 60606.

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

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

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

Item 7. Major Shareholders and Related Party Transactions

A. Major Shareholders

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

B. Related Party Transactions

We adopted an audit committee charter, which requires that the audit committee review all related party transactions on an ongoing basis and all such transactions be approved by the committee. Set forth below is a description of all of our related party transactions for the years ended December 31, 2008, 2009 and 2010.

Transactions with Our Direct Investment Entities

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

Under our arrangements with our local operating partners, we are responsible for the procurement of equipment for our direct investment entities, such as digital displays and digital television receivers. We sell the advertising equipment to our direct investment entities at negotiated prices and record the sales of advertising equipment to our direct investment entities as advertising equipment revenue on our financial statements. We had advertising equipment revenue of US$0.6 million, nil and nil for the years ended December 31, 2008, 2009 and 2010, respectively, representing 0.5%, nil and nil of our total revenues in each respective year.

We also purchase advertising placement services from our direct investment entities at negotiated prices. For the years ended December 31, 2008, 2009 and 2010, we paid an amount of US$8.0 million, US$10.3 million and US$16.4 million, respectively, to our direct investment entities for the advertising placement services.

Exclusive Agency Agreements with Our Direct Investment Entities

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

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

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

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

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

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

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

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

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

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

Transactions with Affiliated Companies of Limin Li

Lease and loan with Meidi Zhiye

We rented office space from Shenzhen Meidi Zhiye Development Co., Ltd., a former equity holder of VisionChina Media Group, or Meidi Zhiye, for the office space of our headquarters and VisionChina Media Group. The rent was determined based on negotiation. Limin Li, our founder and chairman of our board of directors, owns more than 10% of Meidi Ziye s equity interest and is the chairman of Meidi Zhiye. The rental expenses totaled US$163,511, US$191,758 and US$154,153 in 2008, 2009 and 2010, respectively.

Transactions with Champs Elysees

In 2008, 2009 and 2010, VisionChina Media Group paid renovation charges of US$194,101, US$236,124 and US$270,864, respectively, to Champs Elysees Renovations Co., Ltd., or Champs Elysees Renovations. In 2008, 2009 and 2010, VisionChina Media Group also paid property management fees and utility expenses of US$22,661, US$26,820 and US$28,702 respectively, to Champs Elysees Renovations. Limin Li s wife is the chairwoman of Champs Elysees Renovations.

Transaction Related to Our Corporate Structure

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