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

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**FORM 20-F**

(Mark One)

- Registration statement pursuant to Section 12(b) or 12(g) of the Securities Exchange Act of 1934  
or
- Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2010.  
or
- Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_
- Shell company report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Commission file number 000-51387

**Focus Media Holding Limited**

(Exact Name of Registrant as Specified in Its Charter)

Cayman Islands

(Jurisdiction of Incorporation or Organization)

Unit No. 1, 20th Floor, The Centrium  
60 Wyndham Street, Central, Hong Kong  
(Address of Principal Executive Offices)

Contact Person: Mr. Kit Leong Low  
Chief Financial Officer  
Phone: +852 3752-8009  
Facsimile: +852-3583-0082

Address: Unit No. 1, 20th Floor, The Centrium  
60 Wyndham Street, Central, Hong Kong

\*(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
Ordinary Shares, par value US\$0.00005 per share	Nasdaq Global Market

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

None  
\_\_\_\_\_  
(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None  
\_\_\_\_\_  
(Title of Class)

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.

**677,934,625 Ordinary Shares**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes  No

Note — Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

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 registration was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

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

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
(Do not check if a smaller reporting company)

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

U.S. GAAP

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

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17  Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

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

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes  No

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**FOCUS MEDIA HOLDING LIMITED**  
**FORM 20-F ANNUAL REPORT**  
**FISCAL YEAR ENDED DECEMBER 31, 2010**

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## SUPPLEMENTAL INFORMATION

In this annual report, unless otherwise indicated:

- the terms “we,” “us,” “our company,” “our” and “Focus Media” refer to Focus Media Holding Limited, its predecessor entities and subsidiaries, and, in the context of describing our operations, also include our affiliated Chinese entities;
- “shares” and “ordinary shares” refer to our ordinary shares, par value \$0.00005, “ADSs” refers to our American depositary shares, each of which represents five ordinary shares, and “ADRs” refers to the American depositary receipts which evidence our ADSs;
- “China” and “PRC” refer to the People’s Republic of China, excluding Taiwan, Hong Kong and Macau;
- all references to “RMB” are to the legal currency of China and all references to “U.S. dollars,” “US\$,” “dollars” and “\$” are to the legal currency of the United States. Any discrepancies in any table between the amounts identified as total amounts and the sum of the amounts listed therein are due to rounding;
- “Framedia” refers to Infoachieve Limited and its consolidated subsidiaries and affiliates, which we acquired in January 2006;
- “Target Media” refers to Target Media Holdings Limited and its consolidated subsidiaries and affiliates, which we acquired in February 2006;
- “Focus Media Wireless” refers to Dotad Media Holdings Limited, and its consolidated subsidiary and affiliate, which we acquired in March 2006 and renamed Focus Media Wireless. We terminated our mobile handset advertising business, including Focus Media Wireless, in December 2008;
- “Allyes” refers to Allyes Information Technology Company Limited, and its consolidated subsidiaries and affiliates, which we acquired in March 2007 and subsequently disposed of in 2010;
- “CGEN” refers to CGEN Digital Media Company Limited, and its consolidated subsidiaries and affiliates, which we acquired in January 2008 and disposed of in December 2008; and
- This annual report on Form 20-F includes our audited consolidated financial statements for the years ended December 31, 2008, 2009 and 2010, and as of December 31, 2009 and 2010.

### FORWARD-LOOKING STATEMENTS IN THIS ANNUAL REPORT MAY NOT BE REALIZED

This annual report on Form 20-F contains forward-looking statements that are based on our current expectations, assumptions, estimates and projections about us and our industry. All statements other than statements of historical fact in this annual report are forward-looking statements. These forward-looking statements can be identified by words or phrases such as “may”, “will”, “expect”, “anticipate”, “estimate”, “plan”, “believe”, “is/are likely to” or other similar expressions. The forward-looking statements included in this annual report relate to, among others:

- our goals and strategies;
- our future business development, financial condition and results of operations;

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- projected revenues, profits, earnings and other estimated financial information;
- our plans to expand our advertising network into new cities and regions in China
- the growth of our LCD display network, poster frame network, in-store network, movie theater and traditional outdoor billboards;
- our plan to identify and create additional advertising platforms that target specific consumer demographics, which could allow us to increase our advertising revenue;
- competition in the PRC advertising industry;
- the expected growth in the urban population, consumer spending, average income levels and advertising spending levels;
- PRC governmental policies and regulations relating to the advertising industry and regulations and policies promulgated by the State Administration of Foreign Exchange;
- other risks outlined in our filings with the Securities and Exchange Commission, including our registration statements on Form F-1, as amended, and Form F-3 as amended; and
- those other risks identified in “Item 3. Key Information—D. Risk Factors” of this annual report.

These forward-looking statements involve various risks and uncertainties. Although we believe that our expectations expressed in these forward-looking statements are reasonable, we cannot assure you that our expectations will turn out to be correct. Our actual results could be materially different from or worse than our expectations.

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. We undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date on which the statements are made or to reflect the occurrence of unanticipated events.

## **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 consolidated statement of operations data for the years ended December 31, 2008, 2009 and 2010 and the consolidated balance sheet data as of December 31, 2009 and 2010 have been derived from our audited consolidated financial statements, which are included elsewhere in this annual report. Our consolidated financial statements are prepared and presented in accordance with U.S. GAAP. The historical results are not necessarily indicative of results to be expected in any future period.

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Our selected consolidated statement of operations data for the years ended December 31, 2006 and 2007 and our consolidated balance sheets as of December 31, 2006, 2007 and 2008 have been derived from our audited consolidated financial statements, which are not included in this annual report.

The selected consolidated financial information for the periods and as of the dates indicated should be read in conjunction with our financial statements and the accompanying notes and “Item 5. Operating and Financial Review and Prospects”.

In April 2005, we commenced commercial operations of our in-store network and through our acquisition of Framedia, we commenced operation of our poster frame network on January 1, 2006. In February 2006, we acquired Target Media and in March 2006, we acquired Focus Media Wireless. In March 2007, we acquired Allyes. In January 2008, we acquired CGEN.

In December 2008, we disposed of our in-store advertising operations of CGEN, which resulted in a \$190.5 million disposal loss, which includes the write-off of the carrying value of intangible assets and goodwill of \$39.5 million and \$145.6 million, respectively. This disposal loss was recorded as other operating expense in the consolidated statement of operations. Also in 2008, the disposal of our mobile handset advertising business due to changes in market conditions and the regulatory environment resulted in a loss from disposal of \$92.1 million. In September 2009, we terminated our agreement of December 2008 to sell substantially all of the assets of our advertising networks using LCD displays, in-store and poster frame to SINA. In 2008, these assets were accounted for as assets-held-for-sale and their results were presented as discontinued operations. Following the termination of the agreement in September 2009, these assets have been reclassified as assets-held-for-use and the results have been presented as continuing operations for all periods presented.

In the third and fourth quarters of 2009, we restructured continuing operations and disposed of interests in certain subsidiaries in our Internet segment. The results of these companies were accounted for as discontinued operations for all periods presented in accordance with U.S. GAAP.

In January 2010, certain employees and management of Allyes and certain members of the Company’s management and directors entered into a definitive agreement with the Company and Allyes to buy-out an aggregate 38% interest in Allyes from the Company. On July 30, 2010, the Company further sold its entire remaining 62% ownership to Silver Lake, a third party investor, at a cash consideration of \$124 million. Therefore, the results of Allyes and its consolidated subsidiaries and affiliates have been classified as discontinued operations for all the periods presented.

	For the years ended December 31				
	2006	2007	2008	2009	2010
	(In thousands of U.S. Dollars, except share and per share data)				
<b>Selected Consolidated Statements of Operations Data:</b>					
Net revenues: (1)					
LCD displays	\$ 141,472	\$ 183,528	\$ 240,918	\$ 208,499	\$ 297,403
In-store	26,907	27,444	60,719	30,346	37,777
Poster frame	40,904	85,472	146,751	98,962	121,893
Movie theatre and traditional outdoor billboard	690	37,305	77,178	59,057	59,003
Other (2)	1,932	1,115	3,622	300	239
Total net revenues	<u>211,905</u>	<u>334,864</u>	<u>529,188</u>	<u>397,164</u>	<u>516,315</u>
Cost of revenues:					
LCD displays	48,128	51,850	78,728	76,128	67,374
In-store	18,106	23,502	61,834	24,170	23,432
Poster frame	13,621	28,086	59,815	95,401	84,487
Movie theatre and traditional outdoor billboard	760	28,496	56,944	45,085	46,258
Other (2)	765	798	1,723	290	139
Total cost of revenues	<u>81,380</u>	<u>132,732</u>	<u>259,044</u>	<u>241,074</u>	<u>221,690</u>
Gross profit	130,525	202,132	270,144	156,090	294,625
Operating expenses:					
General and administrative	25,723	42,452	79,162	88,833	79,760
Selling and marketing	25,762	53,523	82,258	79,787	103,722
Impairment loss	—	—	377,629	63,646	5,736

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	For the years ended December 31				
	2006	2007	2008	2009	2010
	(In thousands of U.S. Dollars, except share and per share data)				
Other operating expenses (income), net	(1,051)	(7,615)	183,113	13,111	(14,144)
Total operating expenses	50,434	88,360	722,162	245,377	175,074
Income (loss) from operations	80,091	113,772	(452,018)	(89,287)	119,551
Investment loss	—	—	—	—	1,288
Interest income	4,255	9,239	7,130	4,946	7,260
Interest expense	—	(17)	—	—	—
Income (loss) from continuing operations before income taxes	84,346	122,994	(444,888)	(84,341)	125,523
Income taxes	1,044	5,912	25,278	13,780	22,336
Net income (loss) from continuing operations	83,302	117,082	(470,166)	(98,121)	103,187
Net income (loss) from discontinued operations, net of tax	—	28,048	(300,672)	(111,612)	83,078
Net income (loss)	83,302	145,130	(770,838)	(209,733)	186,265
Less: Net income (loss) attributable to noncontrolling interests	105	694	(150)	3,524	1,991
Net income (loss) attributable to Focus Media Holdings Limited Shareholders	\$ 83,197	\$ 144,436	\$ (770,688)	\$ (213,257)	\$ 184,274
Income (loss) per share from continuing operations — basic	\$ 0.16	\$ 0.20	\$ (0.73)	\$ (0.15)	\$ 0.15
Income (loss) per share from continuing operations — diluted	\$ 0.16	\$ 0.19	\$ (0.73)	\$ (0.15)	\$ 0.14
Income (loss) per share from discontinued operations — basic	\$ 0.00	\$ 0.05	\$ (0.47)	\$ (0.17)	\$ 0.12
Income (loss) per share from discontinued operations — diluted	\$ 0.00	\$ 0.05	\$ (0.47)	\$ (0.17)	\$ 0.11
Income (loss) per share — basic	\$ 0.16	\$ 0.24	\$ (1.20)	\$ (0.33)	\$ 0.26
Income (loss) per share — diluted	\$ 0.16	\$ 0.24	\$ (1.20)	\$ (0.33)	\$ 0.25
Shares used in calculating basic income (loss) per share	505,411,079	590,387,396	643,989,522	651,654,345	707,846,570
Shares used in calculating diluted income (loss) per share	521,536,381	608,326,450	643,989,522	651,654,345	731,658,265

	As of December 31				
	2006	2007	2008	2009	2010
	(In thousands of U.S. Dollars)				
<b>Consolidated Balance Sheet Data:</b>					
Cash and cash equivalents	\$ 164,611	\$ 450,416	\$ 142,434	\$ 568,159	\$ 454,476
Other current assets(3)	78,712	431,043	665,137	269,279	397,885
Non-current assets	862,919	1,258,079	724,723	556,005	531,799
Total assets	1,106,242	2,139,538	1,532,294	1,393,443	1,384,160
Total current liabilities	51,837	276,287	318,864	197,056	172,719
Total non-current liabilities	3,303	6,394	13,540	5,435	9,998
Total liabilities	55,140	282,681	332,404	202,491	182,717
Ordinary shares (\$0.00005 par value; 19,800,000,000 shares authorized in 2006, 2007, 2008, 2009 and 2010; 534,896,873, 640,230,852, 646,081,710, 725,278,005 and 677,934,610 shares issued and outstanding in 2006, 2007, 2008, 2009 and 2010, respectively)	27	32	32	36	34
Other equity	1,050,717	1,854,912	1,197,752	1,189,088	1,200,445
Total Focus Media Holdings Limited shareholders' equity	1,050,744	1,854,944	1,197,784	1,189,124	1,200,479
Noncontrolling interests	358	1,913	2,106	1,828	964
Total equity	1,051,102	1,856,857	1,199,890	1,190,952	1,201,443

**Selected Operating Data:(4)**

Number of displays in our commercial location network:					
Our direct cities	80,263	107,533	122,597	125,595	157,916
Our regional distributors(5)	5,197	4,765	5,436	5,411	6,659
Total	85,460	112,298	128,033	131,006	164,575

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	As of December 31				
	2006	2007	2008	2009	2010
	(In thousands of U.S. Dollars)				
Number of displays in our in-store network(6)	38,742	49,452	42,824	44,517	48,179
Number of stores in our in-store network(6)	3,898	4,063	3,275	3,097	2,858
Number of installed frames in our poster frame network(7)	99,784	190,468	324,364	261,076	335,822

- (1) Advertising service revenue is presented net of business tax. Business tax on advertising service revenue from our LCD display network amounted to \$14.4 million, \$20.3 million, \$24.7 million, \$20.6 million and \$31.0 million in 2006, 2007, 2008, 2009 and 2010, respectively. Business tax on advertising service revenue from our in-store network amounted to \$2.8 million, \$2.8 million, \$6.3 million, \$3.2 million and \$4.0 million for 2006, 2007, 2008, 2009 and 2010, respectively. Business tax on advertising service revenue from our poster frame network amounted to \$4.0 million, \$7.9 million, \$13.9 million, \$9.6 million and \$12.2 million, for 2006, 2007, 2008, 2009 and 2010, respectively. Business tax on advertising service revenue from our movie theater and traditional outdoor billboards amounted to \$2.8 million, \$1.5 million and \$2.8 million for 2008, 2009 and 2010, respectively. Business tax includes aggregating business tax and surtax of 5.55% and cultural industries tax ranging from 0% to 4.0% of our gross advertising service revenue. Commencing from January 1, 2011, the maximum cultural industries tax levied was reduced from 4% to 3%.
- (2) Other revenue and cost is related to sale of advertising equipment to business partners and is combined in revenue and cost of LCD displays network in Note 18, "Segment Information", to consolidated financial statements under Item 18.
- (3) Other current assets equal to total current assets less cash and cash equivalents.
- (4) Operating data presented includes operating data for discontinued operations except as noted below.
- (5) Data that has been provided by our regional distributors is based on the results of surveys we requested them to provide to us and it is possible such data is not entirely accurate.
- (6) Operating data for our in-store network does not include data from CGEN's business and operations.
- (7) Number of installed frames includes frames we currently market and frames that have been installed, for instance, in buildings that are still under construction and which we have not yet begun to market. Data includes both traditional poster frames and, for periods starting from June 30, 2007, digital frames.

### Currency Translations and Exchange Rates

Our operating businesses are currently conducted in China and substantially all of our revenues and expenses are denominated in Renminbi. The People's Bank of China, or PBOC, sets and publishes daily a base exchange rate with reference primarily to the supply and demand of Renminbi against a basket of currencies in the market during the prior day. The PBOC also takes into account other factors, such as the general conditions existing in the international foreign exchange markets. Since 1994, the conversion of Renminbi into foreign currencies, including Hong Kong dollars and U.S. dollars, has been based on rates set by the PBOC, which are set daily based on the previous day's inter-bank foreign exchange market rates and current exchange rates in the world financial markets. From 1994 to July 20, 2005, the official exchange rate for the conversion of Renminbi to U.S. dollars was generally stable. Although PRC governmental policies were introduced in 1996 to reduce restrictions on the convertibility of Renminbi into foreign currency for current account items, conversion of Renminbi into foreign exchange for capital items, such as foreign direct investment, loans or securities, requires the approval of the State Administration for Foreign Exchange and other relevant authorities. On July 21, 2005, the PRC government introduced a managed floating exchange rate system to allow the value of the Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. On the same day, the value of the Renminbi appreciated by 2.0% against the U.S. dollar. Since then, the PRC government has made, and

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may in the future make, further adjustments to the exchange rate system. The PBOC announces the closing price of a foreign currency traded against the Renminbi in the inter-bank foreign exchange market after the closing of the market on each working day, and makes it the central parity for the trading against the Renminbi on the following working day.

For all dates and periods through December 31, 2008, exchange rates of Renminbi into U.S. dollars are based on the noon buying rate in The City of New York for cable transfers of Renminbi as certified for customs purposes by the Federal Reserve Bank of New York. For January 1, 2009 and all later dates and periods, the exchange rate refers to the exchange rate as set forth in the H.10 statistical release of the Federal Reserve Board. For your convenience, this annual report contains translations of Renminbi at \$1.00 to RMB6.6000, which was the prevailing rate on December 30, 2010. We make no representation that any Renminbi or U.S. dollar amounts could have been, or could be, converted into U.S. dollars or Renminbi, as the case may be, at any particular rate, the rates stated below, or at all. The PRC government imposes controls over its foreign currency reserves in part through direct regulation of the conversion of Renminbi into foreign exchange and through restrictions on foreign trade.

The following table sets forth information concerning exchange rates between the Renminbi 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.

	AVERAGE	RENMINBI PER U.S. EXCHANGE RATE		PERIOD-END
		HIGH	LOW	
2006	7.9579	8.0702	7.8041	7.8041
2007	7.5806	7.8127	7.2946	7.2946
2008	6.9193	7.2946	6.7800	6.8225
2009	6.8295	6.8470	6.8176	6.8259
2010	6.7603	6.8330	6.6000	6.6000
November	6.6538	6.6892	6.6330	6.6670
December	6.6497	6.6745	6.6000	6.6000
2011 (through June 3)	6.5283	6.6364	6.4780	6.4796
January	6.5964	6.6364	6.5809	6.6017
February	6.5761	6.5965	6.5520	6.5713
March	6.5645	6.5743	6.5483	6.5483
April	6.5267	6.5477	6.4900	6.4900
May	6.4957	6.5073	6.4786	6.4786
June (through June 3)	6.4800	6.4824	6.4780	6.4796

### **B. Capitalization and Indebtedness**

Not applicable.

### **C. Reasons for the Offer and Use of Proceeds**

Not applicable.

### **D. Risk Factors**

Our business and operations are subject to various risks, many of which are beyond our control. If any of the risks described below actually occurs, our business, financial condition or results of operations could be materially harmed.

#### **Risks Relating to Compliance with PRC Law**

*Our failure to comply with certain aspects of applicable PRC laws and regulations could adversely affect our business operations and corporate structure.*

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In order to conduct our business operations through our PRC operating subsidiaries and affiliates, we are required to comply with a range of PRC laws and regulations, including laws and regulations applicable to contractual arrangements among our operating subsidiaries and affiliates, requirements to register the equity pledges relating to those contractual arrangements, other registration requirements under State Administration for Industry and Commerce, or SAIC, rules and regulations, and obligations by us, our management and our PRC shareholders or beneficial owners to comply with the State Administration of Foreign Exchange, or SAFE, registration and disclosure requirements.

Due to uncertainties in the law, the lack of implementing regulations and, in some instances, our delay in complying with some of these rules, there is a risk that we could be found to have violated rules and regulations relating to our corporate structure, SAFE and SAIC registration and PRC foreign exchange rules. As detailed in the risk factor paragraphs below, if we are found to have failed to comply with or breached PRC laws and regulations applicable to us and our PRC operating subsidiaries and affiliates we could be subject to, among other things, penalties including fines, revocation of business licenses of the PRC entities or requirements to restructure our business operations. Our failure to comply with PRC laws and regulations relating to the registration of equity pledges under our contractual arrangements with our PRC operating affiliates could also render the equity pledge, and the structure, unenforceable. If we were subject to any such penalties or negative consequences, our business and operations could be materially and adversely affected.

***If Jason Nanchun Jiang, our founder, chairman and chief executive officer, were to breach any of his contractual or fiduciary obligations to us and our affiliated consolidated entities, we could be subject to regulatory penalties and sanctions and our operations could be materially adversely affected.***

Jason Nanchun Jiang, as the 85% holder of Focus Media Advertisement, entered into contractual agreements among us, our PRC operating subsidiaries, and our PRC operating affiliates. See “Item 7.B Major Shareholders and Related Party Transaction — Related Party Transactions — Agreements among Us, Our PRC Operating Subsidiaries, Our PRC Operating Affiliates and Their Shareholders”. Under those agreements, Jason Nanchun Jiang is obligated to procure the consummation of the transactions contemplated thereunder, to maintain the valid existence of and obtainment and maintenance of all the requisite operation licenses by the relevant PRC operating affiliates, and to prevent the PRC operating affiliates from entering into any transaction that jeopardizes the assets, business operation, ownership structure and other rights of the PRC operating affiliates. As our chairman and chief executive officer, he also has fiduciary obligations to us under Cayman Islands law.

Due to uncertainties in the implementation of PRC laws and regulations, we may be put at risk from failures to comply with all such laws. See “—We use contractual arrangements with our PRC operating affiliates and their shareholders for a significant portion of our China operations, and uncertainties in the PRC legal system could limit our ability to enforce these contractual arrangements and thus our ability to conduct our business” relating to the failure to register the equity pledges, “—PRC regulations relating to offshore investment activities by PRC residents may increase our administrative burden and restrict our overseas and cross-border investment activity. A failure by us or our shareholders or beneficial owners who are PRC citizens or residents in China to comply with such regulations could restrict our ability to distribute profits, restrict our overseas and cross-border investment activities or subject us to liability under PRC laws, which could adversely affect our business and financial condition” relating to Jason Nanchun Jiang’s failure to complete subsequent registrations with the SAFE, and “Our PRC operating subsidiaries and operating affiliates may have engaged in business activities without the necessary registration with local authorities. This could subject us to fines or other penalties, which could negatively impact our revenues or interfere with our ability to operate our business” relating to the failure of some of our indirect operating subsidiaries or our operating affiliates to register with the relevant local branch of SAIC for their expansion of business or for their branch offices in each of the cities where we operate.

Neither we, our operating subsidiaries, operating affiliates or Jason Nanchun Jiang has been subject to fines, sanctions or penalties as a result of these legal compliance matters. Nevertheless, if we, our operating subsidiaries, operating affiliates or Jason Nanchun Jiang are subject to such fines, sanctions or penalties resulting from any such non-compliance, our business operations could be materially adversely affected.

***If the PRC government finds that the ownership structure of our operating subsidiaries or our operation affiliates, or the agreements that establish the structure for operating our China business do not comply with***

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### *PRC governmental restrictions on foreign investment in the advertising industry, we could be subject to severe penalties.*

Substantially all of our operations are or will be conducted through our indirectly wholly-owned operating subsidiaries in China, which we collectively refer to as our PRC operating subsidiaries, and through our contractual arrangements with our consolidated affiliated entities in China. PRC regulations require any foreign entities that invest directly in the advertising services industry to have at least two years of direct operations in the advertising industry outside of China. Since December 10, 2005, foreign investors have been allowed to own directly 100% of PRC companies operating an advertising business if the foreign entity has at least three years of direct operations in the advertising business outside of China or less than 100% if the foreign investor has at least two years of direct operations in the advertising industry outside of China. Generally we do not currently directly operate an advertising business outside of China and our non-PRC subsidiaries cannot qualify under PRC regulations for direct investment in advertising industry. Thus, our PRC operating subsidiaries which are directly owned by non-PRC subsidiaries of ours, which we collectively refer to as wholly-foreign owned, or WFOE, operating subsidiaries, are ineligible to apply for the required licenses for providing advertising services in China. Our non-PRC subsidiaries are ineligible to apply for such required licenses too. However, PRC regulations do not expressly restrict domestic companies controlled by WFOEs through contractual arrangements from operating advertising businesses. As such, our advertising businesses are initially provided, and most businesses we acquired from third parties are provided, through contractual arrangements between our WFOE operating subsidiaries and our consolidated affiliated entities in China, which we collectively refer to as our PRC operating affiliates. Nevertheless, PRC governmental authorities may in the future deem that such business operations by domestic companies controlled by WFOEs evade the qualifications requirements on foreign investment in the advertising industry, and thus, restrict our business operations.

Furthermore, the PRC restriction on foreign investment in advertising industry, however, does not expressly apply to the investment activities of WFOEs, and starting from late 2007, advertising industry has been re-classified from a “restricted” area to a “permitted” area for foreign investment. Thus, WFOEs may establish subsidiaries in China to operate advertising business directly in China. As such, certain of our indirect PRC operating subsidiaries succeeded in obtaining the required licenses for providing advertising services in China. However, the PRC governmental authority may determine in the future that such indirect investments evade the qualification requirements on foreign investment in the advertising industry and thus bans such investment activities.

For the year ended December 31, 2010, approximately 96% and 4% of our net revenue was generated by our indirect PRC operating subsidiaries and our PRC operating affiliates through contractual arrangements, respectively. All of the revenues generated by our PRC operating affiliates are generally available to us to use in expanding our business in China. Although we have been converting some of the PRC operating affiliates to our indirect PRC operating subsidiaries and intend to increase the portion of our advertising revenues generated from our indirect PRC operating subsidiaries, we expect to continue to rely on our PRC operating affiliates, to operate a significant portion of our advertising business for the foreseeable future, given the time and financial costs required for converting these PRC operating affiliates into our indirect subsidiaries or transferring their business to our PRC operating subsidiaries.

Accordingly, our advertising services are currently conducted by (i) our indirect PRC operating subsidiaries and (ii) our PRC operating affiliates, including Shanghai Focus Media Advertisement Co., Ltd., or Focus Media Advertisement, and its subsidiaries. Our PRC operating affiliates, which we control through contractual relationships are owned by either (i) one or more individuals designated by us, (ii) one or more PRC entities owned by other PRC operating affiliates or (iii) a combination of individuals and PRC entities owned by other PRC operating affiliates. We have entered into contractual arrangements with certain of PRC operating affiliates and their respective shareholders pursuant to which we, through our PRC operating subsidiaries, cooperate with, and provide technical support services to, our PRC operating affiliates. In addition, we have entered into agreements with certain of our PRC operating affiliates and each of their shareholders which provide us with the substantial ability to control these affiliates and their existing and future subsidiaries.

If we, our existing or future PRC operating subsidiaries and operating affiliates or their ownership structure or the contractual arrangements are found to be in violation of any existing or future PRC laws or regulations, or our

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existing or future PRC operating subsidiaries or operating affiliates fail to obtain or maintain any of the required permits or approvals, the relevant PRC regulatory authorities, including the State Administration for Industry and Commerce, or SAIC, which regulates advertising companies, and the Ministry of Commerce, which regulates foreign investments in China, would have broad discretion in dealing with such violations, including:

- imposing fines or other monetary penalties on our PRC subsidiaries or affiliates;
- revoking the business and operating licenses of our PRC subsidiaries and affiliates;
- discontinuing or restricting our PRC subsidiaries' and affiliates' operations;
- imposing conditions or requirements with which we or our PRC subsidiaries and affiliates may not be able to comply;
- requiring us or our PRC subsidiaries and affiliates to restructure the relevant ownership structure or operations; or
- restricting or prohibiting our use of the proceeds of any offering or from other sources to finance our business and operations in China.
- The imposition of any of these penalties would result in a material and adverse effect on our ability to conduct our business.

***If the PRC government finds that the ownership structure of our operation affiliates violates PRC laws as a result of the change in Jason Nanchun Jiang's citizenship, we could be subject to severe penalties, and our ability to conduct our business may be affected in a material and adverse way.***

Jason Nanchun Jiang, who is one of the shareholders of Focus Media Advertisement, one of our major PRC operating affiliates, which owns all other PRC operating affiliates that hold the advertising operating licenses connected with our operating businesses, completed naturalization procedures to become a citizen of Singapore in the second quarter of 2009 for personal reasons.

The "Provisions regarding Mergers and Acquisitions of Domestic Enterprises by Foreign Investors," or the New M&A Rule, promulgated by six PRC government and regulatory authorities, including the PRC Ministry of Commerce and the Chinese Securities Regulatory Commission, or the CSRC, which became effective on September 8, 2006 and was revised in 2009, provides that change in the citizenship of a shareholder of a PRC domestic company does not change the nature of such PRC domestic company. Further, based on our enquiries and discussions with the relevant official of the local branch of the SAIC in Shanghai, we have also been orally informed that Jason Nanchun Jiang's change in citizenship does not change the nature of our PRC operating affiliates. However, there is no guarantee that governmental authorities, mainly including the SAIC and the Ministry of Commerce, will not challenge such status due to change in law or change in implementation of relevant laws or for any other reason.

If the ownership structure of our PRC operating affiliates is found to be in violation of any existing or future PRC laws or regulations, the relevant PRC regulatory authorities, mainly including the SAIC and the Ministry of Commerce, would have broad discretion in dealing with such violations, including:

- imposing fines or other monetary penalties on our PRC operating affiliates;
- revoking the business and operating licenses of our PRC operating affiliates;
- discontinuing or restricting our PRC operating affiliates' operations;
- requiring our PRC operating affiliates to restructure the relevant ownership structure or operations.

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- The imposition of any of these penalties would result in a material and adverse effect on our ability to conduct our business.

***We use contractual arrangements with our PRC operating affiliates and their shareholders for a significant portion of our China operations, and uncertainties in the PRC legal system could limit our ability to enforce these contractual arrangements and thus our ability to conduct our business.***

We have in the past used contractual arrangements with our PRC operating affiliates and their respective shareholders to operate a significant portion of our advertising business. We have transferred the majority of our operations to our subsidiaries since 2009. For a description of these contractual arrangements, see the sections titled “Organizational Structure” “Business Overview — Recent Developments” in Item 4. “Information on the Company” and “Item 7. — Major Shareholders and Related Party Transactions”.

Many of these contractual arrangements are governed by PRC law and provide for the resolution of disputes through either arbitration or litigation in the PRC. Accordingly, these contracts would be interpreted in accordance with PRC law and any disputes would be resolved in accordance with PRC legal procedures. The legal environment in the PRC is not as developed as in 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.

For example, the PRC Property Rights Law that was promulgated on March 16, 2007 and became effective on October 1, 2007 requires that registration with the local SAIC is necessary to create security interest on equity interest in a PRC company, which means that before the equity pledge is duly registered with the local SAIC, the equity pledge is unenforceable even though the relevant equity pledge agreement is still binding. Almost all our existing equity pledge agreements between certain of our operating subsidiaries and certain of our operating affiliates and their shareholders were signed before the PRC Property Rights Law took effect. The relevant PRC operating affiliates registered the equity pledges on their registry of shareholders according to then applicable law. The Company attempted to register the relevant equity pledges after the PRC Property Rights Law became effective and we have successfully registered the equity pledge in connection with Focus Media Advertisement, one of our major PRC operating affiliates, which owns all other PRC operating affiliates that hold the advertising operating licenses connected with our operating businesses in December 2010 and certain other PRC operating affiliates with the local SAIC. However, the implementation rules were not promulgated until late 2008 and in some cities late 2009, and the practices taken by the local SAIC authorities vary from city to city. Thus, we are still in the process of applying for registration of other relevant equity pledges and there is no assurance that we can have these equity pledges registered on time or at all. We have completed the registration of four pledges with the local counterparts of the SAIC, and are in the process of registering an additional nine pledges. Considering that we have not registered some of these existing equity pledges, and may fail to register future equity pledges, with the local SAIC, any equity pledge created under these equity pledge agreements may be considered unenforceable. In the event we are unable to enforce these contractual arrangements, we may not be able to exert effective control over our operating affiliates, and our ability to conduct our business may be negatively affected.

***Non-performance of the contractual arrangements with our PRC operating affiliates and their shareholders will result in material and adverse effect in our corporate structure and our business operation.***

Although we operate a substantive portion of our advertising business through contractual arrangements with our PRC operating affiliates and their respective shareholders, these contractual arrangements may not be as effective in providing us with control over our PRC operating affiliates as direct ownership. If we had direct ownership of our PRC operating affiliates, we would be able to exercise our rights as a shareholder to effect changes in the board of directors of those companies, which in turn could effect changes, subject to any applicable fiduciary obligations, at the management level. However, under the current contractual arrangements, as a legal matter, if our PRC operating affiliates or any of their shareholders fails to perform its or his 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 to be effective. For example, if any individual designated by us as the shareholder were to refuse to transfer his equity interest in any of our PRC operating affiliates to us or our designee when we exercise the purchase option pursuant to these contractual arrangements, or if the individual shareholder were otherwise to act in bad faith toward us, or if the individual or entity designated by us failed to cause the unrelated third parties holding minority interests in certain of our PRC operating affiliates to waive their right of first

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refusal or to cooperate with him or it to fulfill his or its contractual obligations, then we may have to take legal action to compel him to fulfill his or its contractual obligations. Accordingly, it may be difficult for us to change our corporate structure or to bring claims against our PRC operating affiliates or its shareholders if they do not perform their obligations under their contracts with us or if any individual who holds the equity interest in our PRC operating affiliates does not cooperate with any such actions.

***We may rely principally on dividends and other distributions on equity paid by our WFOE 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 may rely principally on dividends and other distributions on equity paid by our WFOE operating subsidiaries for our cash requirements, including the funds necessary to service any debt we may incur. If any of our WFOE operating subsidiaries incurs debt on its own behalf, the instruments governing the debt may restrict their ability to pay dividends or make other distributions to us. In addition, the PRC tax authorities may require us to adjust our taxable income under the contractual arrangements our WFOE operating subsidiaries currently have in place with our PRC operating affiliates in a manner that would materially and adversely affect our WFOE operating subsidiaries' ability to pay dividends and other distributions to us. Furthermore, relevant PRC laws 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 and regulations, each of our PRC operating subsidiaries is also required to set aside a portion of its net income each year to fund specific reserve funds. These reserves are not distributable as cash dividends. In particular, subject to certain cumulative limits, the statutory general reserve fund requires annual appropriations of 10% of after-tax income to be set aside prior to payment of dividends. Our WFOE operating subsidiaries have allocated annual after-tax profits to each of their respective reserve funds in compliance with these laws and regulations. For the years ended December 31, 2008, 2009 and 2010, we made total appropriations of \$4,665,681, \$10,765,735 and \$21,211,346 respectively, including the reserve funds of our PRC operating subsidiaries and PRC operating affiliates. As a result of these PRC laws and regulations, our PRC operating subsidiaries and our PRC operating affiliates are restricted in their ability to transfer a portion of their net assets to us in the form of dividends, loans or advances. As of December 31, 2010, the amount of these restricted portions was approximately \$179.5 million. Our PRC operating affiliates have historically not paid dividends to us from their accumulated profits, as we do not own any direct equity interest in these operating affiliates and we do not intend for our operating affiliates to pay dividends to us in the foreseeable future. All of the reserve funds of our PRC operating subsidiaries and affiliates are generally available to us to use in expanding our business in China. Any limitation on the ability of our WFOE operating subsidiaries to receive distributions from their respective subsidiaries or 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. See "Risk Factors — PRC regulations relating to offshore investment activities by PRC residents may increase our administrative burden and restrict our overseas and cross-border investment activity. A failure by our shareholders or beneficial owners who are PRC citizens or residents in China to comply with such regulations could restrict our ability to distribute profits, restrict our overseas and cross-border investment activities or subject us to liability under PRC laws, which could adversely affect our business and financial condition.

***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 subsidiaries and affiliates.***

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

- loans by us to our foreign invested enterprises to finance their respective activities cannot exceed statutory limits and must be registered with the PRC State Administration of Foreign Exchange or its local counterpart; and

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- loans by us in foreign exchange to our PRC operating affiliates and our PRC operating subsidiaries owned by our WFOE operating subsidiaries, which are domestic PRC enterprises, must be approved by the relevant government authorities and must also be registered with the PRC State Administration of Foreign Exchange or its local counterpart. In practice, it is very difficult if not impossible in most cases, to obtain the approval of or complete the registration regarding our loan to any PRC operating affiliate.

We may also determine to finance our PRC foreign invested enterprises by means of capital contributions. These capital contributions must be approved by the PRC Ministry of Commerce or its local counterpart. Because our PRC operating affiliates and our PRC operating subsidiaries owned by our WFOE operating subsidiaries are domestic PRC enterprises, we are not likely to finance their activities by means of direct capital contributions due to regulatory issues relating to foreign investment in domestic PRC enterprises, as well as the licensing and other regulatory issues discussed in “Business Overview — Regulatory Matters” of Item 4. “Information on the Company” of this annual report. 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 PRC operating affiliates and our PRC operating subsidiaries owned by our WFOE operating 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.

Furthermore, on August 29, 2008, State Administration of Foreign Exchange, or SAFE, promulgated the Circular on the Relevant Operating Issues Concerning the Improvement of the Administration of the Payment and Settlement of Foreign Currency Capital of Foreign Invested Enterprises, or SAFE Circular 142, a notice regulating the conversion by a foreign-invested company of foreign currency into Renminbi by restricting how the converted Renminbi may be used. When applying for conversion of foreign exchange in “capital account”, such as foreign exchange received from capital contribution or loans, into Renminbi, the company is required, except for small amount conversion not exceeding US\$50,000 for daily expenses, submit to the bank the relevant documents supporting such conversion, such as the business contracts, related Renminbi payment notice, and documents evidencing the use of funds previously converted from foreign exchange in its capital account. Further, SAFE Circular 142 requires that Renminbi converted from the foreign currency-denominated registered capital of a foreign-invested company may only be used for purposes within the company’s business scope approved by the applicable governmental authority, which is typically the Ministry of Commerce or its local counterparts, and registered with the local SAIC authority, and may not be used for equity investments within the PRC unless specifically provided for otherwise in its business scope. In addition, SAFE strengthened its oversight of the flow and use of Renminbi funds converted from the foreign currency denominated registered capital of a foreign-invested company. The use of such Renminbi may not be changed without approval from SAFE, and may not in any case be used to repay Renminbi loans if the proceeds of such loans have not yet been used. Violations of SAFE Circular 142 may result in severe penalties, including substantial fines as set forth in the Foreign Exchange Administration Regulations. As a result, SAFE Circular 142 may significantly limit our ability to effectively use the net proceeds from future offerings of our ADRs through our PRC operating subsidiaries as our PRC WFOE operating subsidiaries may not convert the funds received from us or our non-PRC subsidiaries in foreign exchange into Renminbi to invest in or acquire any other PRC company or finance the operation or development of our PRC operating affiliates. While the Company is pursuing and will continue pursuing a strategy of development partly through acquisition of other advertising companies, SAFE Circular 142 may adversely affect our liquidity and our liability to fund and expand our business in the PRC.

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

The newly enacted PRC Enterprise Income Tax Law, or the New Law, and the implementation regulations to the New Law issued by the PRC State Council, became effective as of January 1, 2008. The New 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 New Law issued by the PRC State Council, “de facto management body” is defined as a body that has material and overall management and control over the manufacturing and business operations, personnel and human resources, finances and treasury, and acquisition and disposition of properties and other assets of an enterprise.

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Further, on April 22, 2009, the State Administration of Tax (“SAT”) issued a Tax Circular, Guoshuifa [2009] No. 82 on Certain Issues regarding the Determination of Offshore Companies Controlled by PRC Companies as Resident Enterprises pursuant to “De Facto Management Bodies” Standard, or Circular 82, which took effect on January 1, 2008. According to Circular 82, any company established pursuant to laws and regulations other than PRC laws but that is controlled by companies or company groups within China shall be deemed as a resident enterprise for PRC tax purposes if all the following conditions are met: (i) the senior management in charge of the daily operation and management of the company is based within China or the premises where the senior management performs its duties are located within China; (ii) the financial matters (such as raising funds, financing or financial risk management) and human resources matters (such as appointment and dismissal of employees or their payrolls) are decided by companies or individuals within China or require approval from companies or individuals within China; (iii) primary property, books and accounts, company seals and board and shareholder meeting minutes are kept or placed within China; and (iv) 50% or more of the directors with voting rights or senior management habitually reside within China. According to this Circular 82, in determining the location of de facto management, “substance over form” principle should be followed. 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.

Most of our major board decisions, such as those relating to strategic planning, significant investments, raising fund and all matters related to capital market activities are made outside of the PRC. We have an office in Singapore and appointed a Vice President of Marketing and Strategies in April 2009, who habitually resides in Singapore and is in charge of our daily operations, including devising the Company’s development strategy, making key operational decisions and determining the compensation structure of our sales team. Since the beginning of 2009, our management team has been meeting and negotiating with potential overseas investors in the United States and Hong Kong for certain significant restructuring activities. We also appointed a new chief financial officer in January 2010, who spends most of his time in our office located in Hong Kong and is in charge of the Company’s investments, financial management, internal control and compliance. 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 deemed a PRC tax resident is low. However, there is uncertainty regarding whether PRC tax authorities would deem us to be a PRC resident enterprise. If we are treated as a resident enterprise for PRC tax purposes, we will be subject to PRC tax on our worldwide income, which would have an adverse effect on our effective tax rate and net income.

***PRC regulations relating to offshore investment activities by PRC residents may increase our administrative burden and restrict our overseas and cross-border investment activity. A failure by us or our shareholders or beneficial owners who are PRC citizens or residents in China to comply with such regulations could restrict our ability to distribute profits, restrict our overseas and cross-border investment activities or subject us to liability under PRC laws, which could adversely affect our business and financial condition.***

The PRC National Development and Reform Commission, or NDRC, and SAFE promulgated regulations that require PRC residents and PRC corporate entities to register with and obtain approvals from relevant PRC government authorities in connection with their direct or indirect offshore investment activities and subsequent round trip investment into China. These regulations apply to our shareholders who are PRC residents and may apply to any offshore acquisitions that we make in the future.

Under such SAFE regulations, PRC residents who make, or have previously made, direct or indirect investments in offshore companies will be required to register those investments. In addition, any PRC resident who is a direct or indirect shareholder of an offshore company is required to file with the local branch of SAFE, with respect to that offshore company, any material change involving capital variation, such as an increase or decrease in capital, transfer or swap of shares, merger, division, long term equity or debt investment or creation of any security interest over the assets located in China. The SAFE regulations also impose obligations on onshore subsidiaries of the offshore special purpose company to coordinate with and supervise the beneficial owners of the offshore entity who are PRC residents to complete the SAFE registration process. If any PRC resident fails to comply with such SAFE regulations, the PRC subsidiaries of that offshore parent company may be prohibited from distributing their profits and the proceeds from any reduction in capital, share transfer or liquidation, to their offshore parent company, and the offshore parent company may also be prohibited from injecting additional capital.

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into their PRC subsidiaries. Moreover, failure to comply with the various SAFE registration requirements described above could result in liability under PRC laws for evasion of applicable foreign exchange restrictions, such as fines.

As a Cayman Islands company, and therefore a foreign entity, PRC residents who are beneficial holders of our shares are required to register with SAFE in connection with their investment in us. Moreover, if we purchase the assets or equity interest of company owned by PRC residents in exchange for our equity interests, such PRC residents will be subject to the registration procedures described in such SAFE regulations.

These regulations may affect our financial status, business operations or strategies. For example, our present or future PRC subsidiaries' ability to conduct foreign exchange activities, such as remittance of dividends and foreign-currency-denominated borrowings, may be subject to compliance with such SAFE registration requirements by relevant PRC residents, over whom we have no control. We require our shareholders who are PRC residents or have PRC residents as its beneficial owner to comply with these SAFE regulations. However, we may not be fully informed of the identities of all our beneficial shareholders who are PRC citizens or residents, and we cannot compel our beneficial shareholders to comply with SAFE regulations. We cannot assure you that all of our shareholders or beneficial owners who are PRC residents have complied or will comply with our request to make or obtain any registrations or approvals required under these regulations or other related legislation. Furthermore, much uncertainty remains concerning the reconciliation of these regulations with other approval requirements. It is unclear how these regulations, and any future legislation concerning offshore or cross-border transactions, will be interpreted, amended and implemented by the relevant government authorities.

Jason, Nanchun Jiang, who is a major beneficial owner of our company and a PRC resident under these SAFE regulations, has completed initial registration with SAFE. Due to frequent acquisitions and dispositions by the Company of its businesses which trigger the requirement on the subsequent registrations and filings with SAFE in accordance with these regulations, the complexity in registration requirements and time required for such registration and filing procedures, it is difficult to complete all the subsequent registrations and filings in a timely manner. As a result, Jason Nanchun Jiang has in the past failed and may fail in the future, to make subsequent registrations and filings for some of subsequent round trip investments and other material changes in the offshore company in accordance with these regulations. As our WFOE operation subsidiaries distribute dividends to their overseas parent companies from time to time, we may be penalized by SAFE if we are found that any of such distribution is made before our beneficial shareholders, who are PRC residents, fully complete their registrations and filings with SAFE.

Furthermore, relevant SAFE implementation rules promulgated in 2007 require foreign-invested enterprises to disclose the ultimate ownership in them by PRC resident shareholders or beneficial owners to SAFE when they apply for the initial foreign exchange registration. In practice, SAFE may require foreign-invested enterprises to make such disclosure as well when they make subsequent foreign exchange registration in relation to their capital increase. Given these requirements, we typically engage an outside agent for the purposes of filing foreign exchange registrations on behalf of our subsidiaries. Despite these efforts, such disclosure was not made when one of our WFOE operating subsidiaries applied for its initial foreign exchange registration and when another WFOE operating subsidiary filed a subsequent foreign exchange registration in relation to its capital increase. The existing and future failures by our WFOE operating subsidiaries to make such disclosure may inhibit their ability to pay dividends to us.

The failure or inability of us or our PRC resident shareholders or beneficial owners to comply with these regulations may subject us to fines and other legal sanctions although no legal or administrative sanctions have been taken against us so far. In particular, regarding the dividends distributed by our WFOE operating subsidiaries prior to the completion of subsequent registrations by our PRC resident shareholders or beneficial owners, SAFE may, at its discretion, choose to order our PRC resident shareholders or beneficial owners to complete the necessary subsequent registration, to order our WFOE operating subsidiaries to procure the wiring of the foreign exchange back to the PRC in an amount equal to the dividends previously distributed, and to impose monetary fines in an amount up to that of the dividends so distributed. If any of such penalties are imposed, our business operations and financial status could be adversely affected. Furthermore, the non-compliance may also restrict our overseas or cross-border investment activities, limit our ability to inject additional capital into our PRC WFOE subsidiaries and the ability of our PRC WFOE subsidiaries, to make distributions or pay dividends, or materially and adversely affect our ownership structure in which case, our acquisition strategy, business operations and financial status and our

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ability to distribute profits to you could be materially and adversely affected. And such SAFE regulations may restrict our ability to implement our acquisition strategy and adversely affect our business and prospects.

See “Exchange Controls” in Item 10. “Additional Information” in this annual report.

***A failure to comply with PRC regulations regarding the registration of shares and share options held by our employees who are PRC citizens may subject such employees or us to fines and legal or administrative sanctions.***

Pursuant to the Implementation Rules of the Administrative Measures on Individual Foreign Exchange, or the Individual Foreign Exchange Rules, promulgated on January 5, 2007 by SAFE and a relevant guidance issued by SAFE in March 2007, 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 the PRC subsidiary of such overseas-listed company or other qualified PRC agents, to register with SAFE and complete certain other procedures related to the share option or other share incentive plan. In addition, the overseas listed company or its PRC subsidiary or other qualified PRC agent is required to appoint an asset manager or administrator and a custodian bank, and open special foreign currency accounts to handle transactions relating to the share option or other share incentive plan. We and our PRC citizen employees who have been granted share options, or PRC option holders, are subject to these rules. We attempted to comply with these rules. But due to lack of implementation rules, SAFE has not accepted the application for the required registration until recently. As a result, we and our PRC option holders have not yet completed such registration and other relevant procedures, and are in the process of communicating with SAFE for such registration. If we or our PRC option holders fail to comply with these rules in a timely manner or at all, we or our PRC option holders may be subject to fines and other legal sanctions.

### **Risks Relating to Our Business and Industry**

***We have been named as a defendant in certain purported shareholder class action lawsuits that could have a material adverse impact on our operating results and financial condition.***

We may have to defend against an appeal by the plaintiffs in lawsuits as described in Item 8 of this annual report, “Financial Information—Consolidated statements and other financial information—Legal Proceedings.” We are currently unable to estimate the possible loss or possible range of loss, if any, associated with the resolution of these lawsuits. An unfavorable outcome from the plaintiff’s appeal of the judgment in these lawsuits could have a material adverse effect on our consolidated financial position, results of operations, or cash flows in the future. The litigation process may utilize a material portion of our cash resources and divert management’s attention from the day-to-day operations of our company, all of which could harm our business. There can be no assurance that we will prevail in any such appeal and any adverse outcome of these cases could have a material adverse effect on our business or results of operations.

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

Since late 2006 and early 2007, we added a movie theater and traditional billboard advertising network and an Internet advertising services network to our business. Accordingly, we have a limited operating history for our current operations upon which you can evaluate the viability and sustainability of our business and its acceptance by advertisers and consumers. These circumstances may make it difficult for you to evaluate our business and prospects.

***We derive a substantial majority of our revenues from the provision of advertising services, and advertising is particularly sensitive to changes in economic conditions and advertising trends.***

Demand for advertising time slots and advertising frame space on our networks, and the resulting advertising spending by our clients, is particularly sensitive to changes in general economic conditions and advertising spending typically decreases during periods of economic downturn. Advertisers may reduce the money they spend to advertise on our networks for a number of reasons, including:

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- 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;
- a decline in advertising spending in general; or
- 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 revenue from our advertising services, and our financial condition and results of operations.

In 2008, due to the global economic downturn, growth in consumer spending in China slowed which resulted in a corresponding slowdown in advertising spending growth. If there is another deterioration in economic conditions, our revenues, net income and results of operations could be materially 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 corresponding advertising trends in China. In addition, advertising spending generally tends to decrease during January and February each year due to the Chinese Lunar New Year holiday. Factors that are likely to cause our operating results to fluctuate, such as the seasonality of advertising spending in China, the effect of the global economic downturn on spending in China, a further deterioration of economic conditions in China and potential changes to the regulation of the advertising industry in China, are discussed elsewhere in this annual report. If our revenues for a particular quarter are lower than we expect, 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.

***Our failure to maintain existing relationships or obtain new relationships with businesses that allow us to place our LCD flat-panel displays and advertising poster frames in their buildings and other commercial locations and to lease outdoor traditional and LED digital billboards placed in desirable locations would harm our business and prospects.***

Our ability to generate revenues from advertising sales depends largely upon our ability to provide large networks of LCD flat-panel displays placed in desirable building, commercial and store locations, of advertising poster frames (including digital poster frames) placed in residential complexes, and to secure desirable locations of large outdoor traditional and LED digital billboards, throughout major urban areas in China. We also depend on the ability of our third-party location provider to secure desirable traditional and LED digital billboard locations for our outdoor traditional and LED network. This, in turn, requires that we develop and maintain business relationships with real estate developers, landlords, property managers, supermarkets, retailers and other businesses and locations in which we rent space for our displays and billboards. Although a majority of our display placement agreements and advertising frame placement agreements have terms ranging from one to five years, and upon expiration give us the right to renew the agreement on terms no less favorable than those offered by competing bidders, we may not be able to maintain our relationships with them on satisfactory terms, or at all. If we fail to maintain our relationships with landlords and property managers, or if a significant number of our existing display or advertising frame placement agreements are terminated or not renewed or if we fail to maintain our relationship with our location provider of traditional and LED billboard space, advertisers may find advertising on our networks unattractive and may not wish to purchase advertising time slots or advertising frame space on our networks, which would cause our revenues to decline and our business and prospects to deteriorate.

Under some of our display placement agreements in Guangzhou, Shenzhen, Dalian and Chongqing, the property manager has the right to terminate the agreement if landlords or tenants in the building lodge complaints about our flat-panel displays. In addition, some of our display placement agreements in other cities allow the property manager to terminate the agreement if we fail to keep each flat-panel display operational for a minimum

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amount of time each year. If these tenants complain about our displays, or if the property manager claims we have failed to keep the flat-panel displays operational for the stipulated number of days each year, we may be required to remove our panels from these commercial locations.

In accordance with PRC real estate laws and regulations, prior consent of landlords and property managers is required for any commercial use of the public areas or facilities of residential properties. With regard to our network of advertising poster frames and some of our flat-panel displays placed in the elevators and public areas of residential complexes, we have entered into frame or display placement agreements with property managers and landlords. For those frame or display placement agreements entered into with property managers, we intend to obtain or urge property managers to obtain consents from landlords. However, if the landlords of a residential complex object to our placing advertising poster frames or flat-panel displays in the elevators and public areas of the complex, we may be required to remove our advertising poster frames or LCD displays from the complex and may be subject to fines. We may not be able to successfully expand our LCD display network, poster frame networks and in-store networks into new regions or diversify our network into new advertising networks or media platforms, which could harm or reverse our growth potential and our ability to increase our revenues.

***If we are unable to obtain or retain desirable placement locations for our LCD displays, advertising poster frames and outdoor traditional and LED billboards movie theater advertising slots on commercially advantageous terms or if the supply of desirable locations diminishes or ceases to expand, we could have difficulty in maintaining or expanding our network, our operating margins and earnings could decrease and our results of operations could be materially and adversely affected.***

Our location costs, which include lease payments to landlords and property managers under our display placement agreements, maintenance and monitoring fees and other associated costs, comprise a significant portion of our cost of revenues. For 2008, 2009 and 2010, our location costs accounted for 59.5%, 48.9% and 60.7% of our cost of revenues and 29.1%, 29.7% and 26.1% of our total revenues, respectively. In the future, we may need to increase our expenditures on our display and frame placement agreements to obtain new and desirable locations, to renew existing locations, and to secure favorable exclusivity and renewal terms. In addition, lessors of space for our flat-panel displays, advertising poster frames and traditional and LED billboards may charge increasingly higher display location lease fees, or demand other compensation arrangements, such as profit sharing. If we are unable to pass increased location costs on to our advertising clients through rate increases, our operating margins and earnings could decrease and our results of operations could be materially and adversely affected.

In addition, in more developed cities, it may be difficult to increase the number of desirable locations in our network because most such locations have already been occupied either by us or by our competitors, or in the case of outdoor traditional and LED billboards, because the placement of outdoor installments may be limited by municipal zoning and planning policies. In recently developing cities, the supply of desirable locations may be small and the pace of economic development and construction levels may not provide a steadily increasing supply of desirable commercial and residential locations. If, as a result of these possibilities, we are unable to increase the placement of our advertising networks into commercial and residential locations that advertisers find desirable, we may be unable to expand our client base, sell advertising time slots and poster frame space on our network or increase the rates we charge for time slots and poster frame space, which could decrease the value of our network to advertisers.

***If we are unable to attract advertisers to advertise on our networks, we will be unable to maintain or increase our advertising fees and the demand for time on our networks, which could negatively affect our ability to grow revenues.***

The amounts of fees we can charge advertisers for time slots on our LCD display networks, movie theatre advertising networks and traditional billboard networks depend on the size and quality of these networks and the demand by advertisers for advertising time on these networks. Advertisers choose to advertise on these networks in part based on the size of the networks and the desirability of the locations where we have placed our LCD displays and where we lease traditional and LED digital billboards as well as the quality of the services we offer. If we fail to maintain or increase the number of locations, displays and billboards in our networks, diversify advertising channels in our networks, or solidify our brand name and reputation as a quality provider of advertising services, advertisers

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may be unwilling to purchase time on our networks or to pay the levels of advertising fees we require to remain profitable.

In addition, the fees we can charge advertisers for frame space on our poster frame network depends on the quality of the locations in which we place advertising poster frames, demand by advertisers for frame space and the quality of our service. If we are unable to continue to secure the most desirable residential locations for deployment of our advertising poster frames, we may be unable to attract advertisers to purchase frame space on our poster frame network.

Our failure to attract advertisers to purchase time slots and frame space on our networks will reduce demand for time slots and frame space on our networks and the number of time slots and amount of frame space we are able to sell, which could necessitate lowering the fees we charge for advertising time on our network and could negatively affect our ability to increase revenues in the future.

### ***Acquisitions we have made, and any future acquisitions may expose us to potential risks and have an adverse effect on our ability to manage our business.***

Our integration of acquired entities into our business may not be successful and may not enable us to expand into new advertising platforms as well as we expect. This would significantly affect the expected benefits of these acquisitions. For example, in 2008, we disposed of CGEN's in-store advertising operations, and discontinued the operations of Focus Media Wireless, both of which were recent acquisitions. These two transactions resulted in impairments losses to our 2008 results of operations. In addition, we discontinued or disposed of certain of our Internet operations in 2009 which resulted in losses to our 2009 results of operations. Moreover, the integration of acquired entities into our operations has required, and will continue to require, significant attention from our management. Future acquisitions will also likely present similar challenges.

The diversion of our management's attention and any difficulties encountered in any integration process could have an adverse effect on our ability to manage our business. In addition, we may face challenges trying to integrate new operations, services and personnel with our existing operations. Our recent acquisitions and possible future acquisitions may also expose us to other potential risks, including risks associated with unforeseen or hidden liabilities, the diversion of resources from our existing businesses and technologies, our inability to generate sufficient revenue to offset the costs, expenses of acquisitions and potential loss of, or harm to, relationships with employees and advertising clients as a result of our integration of new businesses and new regulations governing cross-border investment by PRC residents. In addition, we cannot assure you that we will be able to realize the benefits we anticipate from acquiring companies, or that we will not incur costs, including those relating to intangibles or goodwill, in excess of our projected costs for these transactions. The occurrence of any of these events could have a material and adverse effect on our ability to manage our business, our financial condition and our results of operations.

### ***There may be unknown risks inherent in the acquisitions we have made.***

Although we have conducted due diligence with respect to the major acquisitions we have undertaken and undertake, we may not be aware of all of the risks associated with the targets of such acquisitions we have made. Any discovery of adverse information concerning any company we have acquired since we acquired such entity could have a material adverse effect on our business, financial condition and results of operations. While we are entitled to seek indemnification in certain circumstances, successfully asserting indemnification or enforcing such indemnification could be costly and time consuming or may not be successful at all.

In addition, even if we are able to evaluate such risks, entities we acquire may not perform as we expected due to a range of factors, many of which are beyond our ability to assess or predict. In some instances we may determine to write-off or dispose of acquired entities that underperform. For example, in 2009 we disposed of certain underperforming entities that operated in our Internet division. We may conduct additional such dispositions or write-offs in the future which could have a material and adverse effect on our business, financial condition and results of operations.

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***Our strategic alliances and partnerships may not succeed or yield the benefits we anticipated which could materially and adversely affect our business and results of operations.***

We have entered into strategic alliances and partnerships with other companies, including Yanhuang Health Media Limited and Dentsu Group, and we may continue to enter into additional alliances and partnerships in the future. However, we cannot assure you that these alliances and partnerships will succeed or result in the benefits we anticipated when we entered into them. For instance, under the terms of our alliance with Yanhuang Health Media, we transferred ownership and operation of the LCD flat-panel displays from the healthcare channel portion of our commercial location network to Yanhuang Health Media. Accordingly, we cannot control Yanhuang Health Media's management and operation of the healthcare channel or ensure that they will be able to successfully attract advertising customers as we might were we in direct control of that channel. In 2008, we took an investment write-down of approximately US\$0.4 million in connection with our investment in Yanhuang Health Media. If the strategic alliances and partnerships we have entered into, or may in the future enter into, do not succeed, our business and results of operations could be materially adversely affected.

***One or more of our regional distributors could engage in activities that are harmful to our reputation in the industry and to our business.***

As of December 31, 2010, we covered approximately 34 out of the approximately 100 cities where we provide our LCD display network through contractual arrangements with regional distributors. Under these arrangements, we provide our business model and operating expertise to local advertising companies in exchange for their acting as regional distributors of our advertising services. We also sell our flat-panel displays to our regional distributors, who are responsible for developing and maintaining an advertising network in office buildings and other commercial locations in the respective cities where they operate. We also grant our regional distributors the right to use our "Focus Media", "Framedia" and other brand names and logos. However, our contractual arrangements with our regional distributors do not provide us with control or oversight over their everyday business activities, and one or more of our regional distributors may engage in activities that violate PRC laws and regulations governing the advertising industry and advertising content, or other PRC laws and regulations generally. Some of our regional distributors may not possess all the licenses required to operate an advertising business, or may fail to maintain the licenses they currently hold, which could result in local regulators suspending the operations of the network in those cities. In addition, we do not independently review the advertising content that our regional distributors display on the portion of our commercial location network that they operate independently, and our regional distributors may include advertising content on their part of the commercial location network and violate PRC advertising laws or regulations or expose them and us to lawsuits or result in the revocation of their business license. If any of these events occurs, it could harm our reputation in the industry.

***If we fail to maintain an effective system of internal control over financial reporting, we may not be able to accurately report our financial results or prevent fraud.***

We are subject to reporting obligations under the U.S. securities laws. The SEC, as required by Section 404 of the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, adopted rules requiring every public company to include a management report on such company's internal control over financial reporting in its annual report, which contains management's assessment of the effectiveness of the company's internal control over financial reporting. In addition, an independent registered public accounting firm for a public company must attest to and report on the effectiveness of the company's internal control over financial reporting. Accordingly, our management assessed our effectiveness of internal control over financial reporting as of December 31, 2010 using the criteria set forth in the report "Internal Control — Integrated Framework" published by the Committee of Sponsoring Organizations of the Treadway Commission, or COSO.

Our management has concluded that our internal control over financial reporting was effective as of December 31, 2010. Nevertheless, we cannot assure you that any significant deficiency or material weakness in our internal control over financial reporting will not be identified in the future. If, however, we fail to maintain the adequacy of our internal control, we may not be able to conclude that we have effective internal control over financial reporting. Furthermore, effective internal control over financial reporting is necessary for us to produce reliable financial reports and is important to help us to manage the company effectively and prevent fraud. If we are unable to implement solutions to any deficiencies in our existing internal controls and procedures, or if we fail to maintain an effective system of internal controls in the future, we may be unable to accurately report our financial results or prevent fraud and investor confidence and the market price of our ADSs may be adversely impacted.

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***Failure to manage our growth and operations could strain our management, operational and other resources and we may not be able to achieve anticipated levels of growth in the new networks and media platforms we operate, either of which could materially and adversely affect our business and growth potential.***

To manage our growth and operations, we must develop and improve our existing administrative and operational systems and our financial and management controls and further expand, train and manage our work force. As we continue this effort, we may incur substantial costs and expend substantial resources in connection with any such expansion or to react to more challenging market conditions, due to, among other things, different technology standards, legal considerations and cultural differences. We may not be able to manage our current or future international operations effectively and efficiently or compete effectively in such markets. We cannot assure you that we will be able to efficiently or effectively manage the growth or changes in our operations, recruit top talent and train our personnel. Any failure to efficiently manage our expansion or changes in operations may materially and adversely affect our business and future growth.

As we continue to expand into new networks and new media platforms, we expect the percentage of revenues derived from our commercial location network to decline. However, the new advertising networks and media platforms we pursue may not present the same opportunities for growth that we have experienced with our commercial location network and, accordingly, we cannot assure you that the level of growth of our networks will not decline over time. Moreover, we expect the level of growth of our commercial location network to decrease as many of the more desirable locations have already been leased by us or our competitors.

***If advertisers or the viewing public do not accept, or lose interest in, our out-of-home advertising network, our revenues may be negatively affected and our business may not expand or be successful.***

The market for out-of-home advertising networks in China is relatively new and its potential is uncertain. We compete for advertising spending with many forms of more established advertising media. Our success depends on the acceptance of our out-of-home advertising network by advertisers and their continuing interest in these mediums as components of their advertising strategies. Our success also depends on the viewing public continuing to be receptive towards our advertising network. Advertisers may elect not to use our services if they believe that consumers are not receptive to our networks or that our networks do not provide sufficient value as effective advertising mediums. Likewise, if consumers find some element of our networks, such as the audio feature of our LCD display, in-store, movie theater and outdoor traditional and LED billboard networks, to be disruptive or intrusive, commercial locations, stores and movie theaters may decide not to place our flat-panel displays in their properties or lease us time in movie theaters and advertisers may view our advertising network as a less attractive advertising medium compared to other alternatives. In that event, advertisers may determine to reduce their spending on our advertising network. If a substantial number of advertisers lose interest in advertising on our advertising network for these or other reasons, we will be unable to generate sufficient revenues and cash flow to operate our business, and our advertising service revenue, liquidity and results of operations could be negatively affected.

***We depend on the leadership and services of Jason Nanchun Jiang, who is our founder, executive chairman, chief executive officer and, through JJ Media Investment Holdings Limited, a wholly owned holding company,***

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*one of our largest shareholders, and our business and growth prospects may be severely disrupted if we lose his services.*

Our future success is dependent upon the continued service of Jason Nanchun Jiang, our founder, executive chairman, chief executive officer and, through JJ Media Investment Holdings Limited, one of our largest shareholders. We rely on his industry expertise and 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 landlords and property managers of the locations in our network. We do not maintain key-man life insurance for Mr. Jiang. If he was unable or unwilling to continue in his present position, or if he joined a competitor or formed a competing company in violation of his employment agreement and noncompetition agreement, we may not be able to replace him easily or at all. As a result, our business and growth prospects may be severely disrupted if we lose his services.

*We may need additional capital and we may not be able to obtain it, which could adversely affect our liquidity and financial position.*

We believe that our current cash and cash equivalents and cash flow from operations will be sufficient to meet our anticipated cash needs including for working capital and capital expenditures, for the foreseeable future. We may, however, require additional cash resources due to changed business conditions or other future developments. If these sources are insufficient to satisfy our cash requirements, we may seek to sell additional equity or debt securities or obtain a credit facility. The sale of convertible debt securities or additional equity securities, could result in additional 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 flows;
- PRC governmental regulation of foreign investment in advertising services companies in China;
- 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.

*If we are unable to adapt to changing regulatory requirements or advertising trends and the technology needs of advertisers and consumers, we will not be able to compete effectively and we will be unable to increase or maintain our revenues which may materially and adversely affect our business prospects and revenues.*

The market for advertising requires us to continuously identify new advertising trends and the technology needs of advertisers and consumers, which may require us to develop new features and enhancements for our advertising network. The majority of our displays use 17-inch liquid crystal displays screens. We also have a growing number of displays that use larger LCD and plasma screens as well as large size LED digital billboards. We also upgraded portions of our poster frame network with digital poster LCD displays. Allyes provides online advertising services to customers. Our movie theater network provides advertising time prior to movie screenings by leasing screen time. In the future, subject to relevant PRC laws and regulations, we may use other technology, such as cable or broadband networking, advanced audio

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technologies and high-definition panel technology. 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. For example, if the use of broadband networking capabilities on our advertising network becomes a commercially viable alternative and meets all applicable PRC legal and regulatory requirements, and we fail to implement such changes on our commercial location network and in-store network or fail to do so in a timely manner, our competitors or future entrants into the market who do take advantage of such initiatives could gain a competitive advantage over us. In addition, the local authorities may issue temporary restriction or prohibition on outdoor advertising at the regional level in light of public events of large scale held locally. For example, the Shanghai local government issued certain local regulations that prohibit advertising on ships (other than cargo ships and ferries) on the Huangpu River and Suzhou Creek area and restrictive rules for applying for outdoor advertising for the period of preparation and hosting of World EXPO 2010, which ended on October 31, 2010. If we cannot succeed in complying with new regulatory requirements or developing and introducing new features on a timely and cost-effective basis, advertiser demand for our advertising networks 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 prospects and revenues.

***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 advertising networks or Internet advertising services network.***

PRC advertising laws and regulations require advertisers, advertising operators and advertising distributors, including businesses such as ours, to ensure that the content of the advertisements they prepare or distribute is fair and accurate and is in full compliance with applicable law. Violation of these laws 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 advertising business operations.

As an advertising service provider, we are obligated under PRC laws and regulations to monitor the advertising content that is shown on our advertising networks for compliance with applicable law. In addition, each of our regional distributors is obligated under PRC laws and regulations to monitor the advertising content shown on the portion of our LCD display network each of them operates. In general, the advertisements shown on our advertising network and the portion of our advertising network operated by our regional distributors have previously been broadcast over public television networks and have been subjected to internal review and verification of such networks. We and our regional distributors are still separately required to independently review and verify these advertisements for content compliance before displaying the advertisements. In addition, where a special government review is required for specific product advertisements before broadcasting, we and our regional distributors are separately obligated to confirm that such review has been performed and approval has been obtained. We employ, and our regional distributors are required under the terms of our agreements with them to employ, qualified advertising inspectors who are trained to review advertising content for compliance with relevant PRC laws and regulations. In addition, for advertising content related to specific types of products and services, such as alcohol, cosmetics, pharmaceuticals and medical procedures, we and our distributors are required to confirm that the advertisers have obtained requisite government approvals including the advertiser's 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 endeavor to comply, and encourage our regional distributors to take measures to comply, with such requirements, including by requesting relevant documents from the advertisers. Starting in January 2006, we began to operate a network of advertising poster frames placed primarily in elevators and public areas of residential complexes. The advertisements shown on our poster frame network are defined as print advertisements under PRC laws and regulations and are also subject to the same legal requirements as advertisements shown on our LCD display networks. Outdoor advertisements must be registered with the local branch of the State Administration for Industry and Commerce, or SAIC, before dissemination, and advertising distributors are required to submit a registration application form and the content of the advertisement to the local SAIC and receive an advertising registration certificate from the local SAIC. Our reputation will be tarnished and our results of operations may be adversely affected if advertisements shown on our out-of-home television advertising networks, poster frame network, movie theater or outdoor traditional or LED billboard network are provided to us by our advertising clients in violation of relevant PRC advertising laws and regulations or that the

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supporting documentation and government approvals provided to us by our advertising clients in connection with such advertising content are not complete or that the advertisements that our regional distributors have procured for broadcasting on our network have not received required approval from the relevant local supervisory bodies or are not content compliant.

In addition, we commenced operation of our traditional billboard network in January 2007. The placement and installation of traditional are subject to municipal zoning requirements and governmental approvals, including application for an outdoor advertising registration certificate for each traditional billboard subject to a term of use for a period of time, which is typically no more than two years for traditional billboards. If the existing traditional billboards placed by our location provider or us are required to be removed, the attractiveness of this portion of our advertising network will be diminished. Moreover, failure by an owner of traditional billboards to maintain outdoor advertising registration certificates would result in the inability to lease or market such space for the placement of advertisements.

China has also enacted regulations governing telecommunication service providers and the distribution of news and other information. In the past, the Chinese government has stopped the distribution of information over the Internet and telecommunications networks that it believes to violate Chinese law, including content that is pornographic or obscene, incites violence, endangers national security, is contrary to the national interest or is defamatory. If any of the content that we deliver through our Internet advertising network is found to violate Chinese laws and regulations, we could be subject to fines or suspensions.

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 consumers find the content displayed on our advertising network to be offensive, landlords, property managers, other location providers or telecommunication network operators may seek to hold us responsible for any consumer claims or may terminate their relationships with us.

In addition, if the security of our content management system is breached through the placement of unauthorized compact flash, or CF cards in our flat-panel displays 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 despite our efforts to ensure the security of our content management system. Any such event may also damage our reputation. If our advertising viewers do not believe our content is reliable or accurate, our business model may become less appealing to viewers in China and our advertising clients may be less willing to place advertisements on our advertising network.

***We may be subject to intellectual property infringement claims, which may force us to incur substantial legal expenses and, if determined adversely against us, may materially disrupt our business.***

We cannot be certain that our advertising displays 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.

***Unauthorized use of our intellectual property by third parties, and the expenses incurred in protecting our intellectual property rights, may adversely affect our business.***

We regard our copyrights, trademarks, trade secrets and other intellectual property as critical to our success. Unauthorized use of the intellectual property used in our business may adversely affect our business and reputation.

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We have historically relied on a combination of trademark and copyright law, trade secret protection and restrictions on disclosure to protect our intellectual property rights. We enter into confidentiality and invention assignment agreements with all our employees. We cannot assure you that these confidentiality agreements will not be breached, that we will have adequate remedies for any breach, or that our proprietary technology will not otherwise become known to, or be independently developed by, third parties.

We are in the process of registering in China many of the trademarks used in our business. We cannot assure you that any of our trademark applications will ultimately proceed to registration or will result in registration with scope adequate for our business. Some of our pending applications or registrations may be successfully challenged or invalidated by others. If our trademark applications are not successful, we may have to use different marks for affected services or technologies, or enter into arrangements with any third parties who may have prior registrations, applications or rights, which might not be available on commercially reasonable terms, if at all.

In addition, policing unauthorized use of our proprietary technology, trademarks and other intellectual property is difficult and expensive, and litigation may be necessary in the future to enforce our intellectual property rights. Future litigation could result in substantial costs and diversion of our resources, and could disrupt our business, as well as have a material adverse effect on our financial condition and results of operations.

***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 advertising companies in China. 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 face competition from other out-of-home television advertising network operators for access to the most desirable locations in cities in China. Individual buildings, hotels, restaurants and other commercial locations and hypermarket, supermarket and convenience store chains may also decide to independently, or through third-party technology providers, install and operate their own flat-panel television advertising screens. Our in-store network faces competition with similar networks operated by domestic out-of-home advertising companies. Our Internet advertising services compete with those provided by domestic and international advertising agencies, including the WPP Group. We also compete for overall advertising spending with other alternative advertising media companies, such as Internet, wireless communications, street furniture, billboard, frame and public transport advertising companies, and with traditional advertising media, such as newspapers, television, magazines and radio.

In the future, we may also face competition from new entrants into the out-of-home television advertising sector. Our sector is characterized by relatively low fixed costs and, as is customary in the advertising industry, we do not have exclusive arrangements with our advertising clients. In addition, since December 10, 2005, wholly foreign-owned advertising companies are 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, or exclusive arrangements with desirable locations, 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.

***We do not maintain any business liability disruption or litigation insurance coverage for our operations, and any business liability, disruption or litigation we experience might result in our incurring substantial costs and the diversion of resources.***

The insurance industry in China is still at an early stage of development. Insurance companies in China offer limited business insurance products and do not, to our knowledge, offer business liability insurance. While business disruption insurance is available to a limited extent in China, we have determined that the risks of disruption, cost of such insurance 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

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liability, disruption or litigation insurance coverage for our operations in China. Any business disruption or litigation may result in our incurring substantial costs and the diversion of resources.

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

Based upon the past and projected composition of our income and valuation of our assets, including goodwill, we believe we were not a passive foreign investment company, or PFIC, for 2010, we do not expect to be a PFIC for 2011, and we do not expect to become one in the future, although there can be no assurance in this regard. Furthermore, it is not entirely clear how the contractual arrangements between us and our consolidated VIEs will be treated for purpose of the PFIC rules. If, however, we were a PFIC, such characterization could result in adverse United States federal income tax consequences to you if you are a U.S. investor. For example, if we are a PFIC, our U.S. investors will become subject to increased tax liabilities under United States federal income tax laws and regulations and will become subject to burdensome reporting requirements. The determination of whether or not we are a PFIC is made on an annual basis and will depend on the composition of our income and assets from time to time. Specifically, we will be classified as a PFIC for United States federal income tax purposes if either: (i) 75% or more of our gross income in a taxable year is passive income, or (ii) the average percentage of our assets by value in a taxable year which produce or are held for the production of passive income (which includes cash) is at least 50%. The calculation of the value of our assets will be based, in part, on the then 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. For more information on PFICs, see “Item 10.E Additional Information — Taxation — United States Federal Income Taxation”.

### **Risks Relating to Regulation of Our Business and to Our Structure**

***Contractual arrangements we have entered into among our subsidiaries and affiliated entities may be subject to scrutiny by the PRC tax authorities and a finding that we owe additional taxes or are ineligible for our tax exemption, or both, could substantially increase our taxes owed, and reduce our net income and the value of your investment.***

Under PRC law, arrangements and transactions among related parties may be subject to audit or challenge by the PRC tax authorities. If any of the transactions we have entered into among our subsidiaries and operating affiliates are found not to be on an arm’s-length basis, or to result in an unreasonable reduction in tax under PRC law, the PRC tax authorities have the authority to disallow our tax savings, adjust the profits and losses of our respective PRC entities and assess late payment interest and penalties. See “Item 5. Operating and Financial Review and Prospects — Taxation” for a discussion of the transactions referred to above. In compliance with existing PRC law, our PRC operating subsidiaries and affiliates have filed with the relevant tax authorities on an annual basis a report disclosing any related party transactions. As of the date of this Form 20-F, we have not received any order or notice from the PRC tax authorities requiring an upward adjustment of our tax liability or otherwise challenging any related party transaction. However, there can be no assurance that the PRC tax authorities will not conduct an audit or issue any negative order with respect to any related party transaction in the future. A finding by the PRC tax authorities that any of our PRC operating subsidiaries or affiliated entities are ineligible for their tax exemptions or an order by the PRC tax authorities that requires an upward adjustment on taxation or any interest on late payments or other penalties should be imposed would substantially increase our taxes owed and reduce our net income and the value of your investment. As a result of this risk, you should evaluate our results of operations and financial condition without regard to these tax savings.

***Our business operations may be affected by legislative or regulatory changes.***

There are no existing PRC laws or regulations that specifically define or regulate out-of-home television. Changes in laws and regulations or the enactment of new laws and regulations governing placement or content of out-of-home advertising, our business licenses or otherwise affecting our business in China may materially and adversely affect our business prospects and results of operations. An example of regulatory changes that affected our business was the introduction of “anti-spam” rules governing the sending of SMS messages without a user’s

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consent. These changes in rules governing wireless services contributed to a market environment that eventually contributed to our decision to terminate our mobile handset advertising network in April and December 2008. Further, in 2009, in response to a regulation promulgated by Shanghai Municipality Government in early 2009, regarding the operation of boat-based advertising platform on the Huangpu River, we suspended operation of the LED billboard aboard the boat. Accordingly, we recorded an aggregate impairment loss of \$36.9 million for the year ended December 31, 2009 as, following renovations and outfitting of the boat for non-passenger and non-cargo services and an eight-month solicitation effort to use the boat for advertising purposes in other markets, we were unable to find a suitable alternative market where the boat could be put to active use.

### **Risks Relating to the People's Republic of China**

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.

***The PRC's economic, political and social conditions, as well as governmental policies, could affect the financial markets in China and our liquidity and access to capital and our ability to operate our business.***

The PRC economy differs from the economies of most developed countries in many respects, including the amount of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources. While the PRC economy has experienced significant growth over the past, 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 PRC economy, but may also have a negative effect on us. For example, under current PRC regulations, since December 10, 2005, foreign entities have been allowed to directly own 100% of a PRC advertising business if the foreign entity has at least three years of direct operations of an advertising business outside of China, or to directly own less than 100% of a PRC advertising business if the foreign entity has at least two years of direct operations of an advertising business outside of China. This may encourage foreign advertising companies with more experience, greater technological know-how and more extensive financial resources than we have to compete against us and limit the potential for our growth. Moreover, our financial condition and results of operations may be adversely affected by government control over capital investments or changes in tax regulations that are applicable to us.

The PRC economy has been transitioning from a planned economy to a more market-oriented economy. Although the PRC government has implemented measures since the late 1970s emphasizing the utilization of market forces for economic reform, the reduction of state ownership of productive assets and the establishment of improved corporate governance in business enterprises, a substantial portion of productive assets in China is still owned by the PRC government. In addition, the PRC government continues to play a significant role in regulating industry development by imposing industrial policies. The PRC government also exercises significant control over China's economic growth through the allocation of resources, controlling payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. Since late 2003, the PRC government implemented a number of measures, such as raising bank reserves against deposit rates to place additional limitations on the ability of commercial banks to make loans and raise interest rates, in order to slow down specific segments of China's economy which it believed to be overheating. These actions, as well as future actions and policies of the PRC government, could materially affect our liquidity and access to capital and our ability to operate our business.

***The PRC legal system embodies uncertainties which could limit the legal protections available to you and us.***

The PRC legal system is a civil law system based on written statutes. Unlike common law systems, it is a system in which decided legal cases have little precedential value. In 1979, the PRC government began to promulgate a comprehensive system of laws and regulations governing economic matters in general. The overall effect of legislation over the past 32 years has significantly enhanced the protections afforded to various forms of foreign investment in China. Each of our PRC operating subsidiaries and affiliates is subject to PRC laws and regulations. However, these laws, regulations and legal requirements change frequently, and their interpretation and enforcement involve uncertainties. 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

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authorities have significant discretion in interpreting and implementing statutory and contractual terms, it may be more difficult to evaluate the outcome of administrative and court proceedings and the level of legal protection we enjoy than in more developed legal systems. These uncertainties may impede our ability to enforce the contracts we have entered into with our operating affiliates. In addition, such uncertainties, including the inability to enforce our contracts, could materially and adversely affect our business and operation. In addition, 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, particularly with regard to the advertising industry, 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, including our ability to enforce our agreements with Focus Media Advertisement and its subsidiaries and shareholders, and other foreign investors, including you.

***If tax benefits currently available to us in PRC were no longer available, our effective income tax rates for our PRC operations could increase.***

We are incorporated in the Cayman Islands where no income taxes are imposed.

We generated substantially all our net income from our PRC operations. Our China operations are conducted through various subsidiaries and operating affiliates. Prior to January 1, 2008, pursuant to the PRC Income Tax Laws, our subsidiaries and operating affiliates were generally subject to EIT at a statutory rate of 33%.

The newly enacted New Law, and the implementation regulations to the New Law issued by the PRC State Council, became effective as of January 1, 2008. Under the New Law, China adopted a uniform tax rate of 25% for all enterprises (including domestically-owned enterprises and foreign-invested enterprises) and revoked the previous tax exemption, reduction and preferential treatments applicable to foreign-invested enterprises. There is a transition period for enterprises, whether foreign-invested or domestic, which 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 New Law subject to relevant transaction rules. 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. Preferential tax treatments may be granted to industries and projects that are strongly supported and encouraged by the state, and enterprises that qualify as “High and New Technology Enterprise” (“HNTE”) are entitled to a 15% enterprise income tax rate.

Further, Notice of the State Council concerning Implementation of Transitional Tax Incentives for HNTE newly-established in Special Economic Zones and Shanghai Pudong New Area (“Circular 40”) allows high tech companies established in the Special Economic Zones and Shanghai Pudong New Area to enjoy enterprise income tax exemption for the first to second year and half-rate of 25% statutory rate for the third to fifth year.

Most of the Company’s PRC operating subsidiaries and affiliates have completed transition from 33% to 25% starting from January 1, 2008. Those that enjoyed a lower tax rate of 15% before January 1, 2008 will gradually transition to the uniform tax rate of 25% from 2008 to 2012 unless they obtain the HNTE status under the New Law.

Among the subsidiaries and VIEs, Beijing Focus Media Wireless Co., Ltd. was qualified for the transitional rule under Circular 39 and thus enjoyed 0% for 2008 and enjoy a 50% reduction off the tax rate from 2009 through 2011. For the years ended December 31, 2008, 2009 and 2010, Beijing Focus Media Wireless Co., Ltd., was subject to a preferential tax rate of 0%, 10% and 11% accordingly.

Focus Media Information Technology (China) Co., Ltd. was incorporated on August 22, 2008 in one of the specific areas designated by the State Council, and obtained the HNTE qualification on June 22, 2010. Therefore, Focus Media Information Technology (China) Co., Ltd. is exempted from the EIT for the two years ending December 31, 2010 and 2011 and will enjoy a 50% tax deduction for the next three years.

We cannot assure you that the tax authorities will not, in the future, discontinue any of our preferential tax treatments, potentially with retroactive effect. The discontinuation of our preferential tax treatments or the change of the applicable preferential tax rate could materially increase our tax obligations.

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

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The New Law, and the implementation regulations for the New Law issued by the PRC State Council, became effective as of January 1, 2008. The New Law provides that a maximum income tax rate of 20% will 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 has reduced such rate to 10% through the implementation regulations. Pursuant to the New Law, dividends generated after January 1, 2008 and payable by a foreign-invested enterprise in China to its foreign investors will be subject to a 10% withholding tax, unless any such foreign investor’s jurisdiction of incorporation has a tax treaty with China that provides for a different withholding arrangement.

We are a Cayman Islands holding company and substantially all of our income may be derived from dividends and royalty fees we receive from our operating subsidiaries located in the PRC. Thus, dividends paid to us by our WFOE operating subsidiaries in China are subject to the 10% withholding tax if we are considered as a “non-resident enterprise” under the New Law. If we are required under the New Law to pay income tax for any dividends we receive from our subsidiaries, it will materially and adversely affect the amount of dividends, if any, we may pay to our shareholders and ADS holders. Furthermore, the State Administration of Taxation promulgated the Notice on How to Understand and Determine the Beneficial Owners in Tax Agreement in October 2009, or Circular 601, which provides guidance for determining whether a resident of a contracting state is the “beneficial owner” of an item of income under China’s tax treaties and tax arrangements with other countries or regions. According to Circular 601, a beneficial owner generally must be engaged in substantive business activities. An agent or conduit company will not be regarded as a beneficial owner and, therefore, will not qualify for treaty benefits. The conduit company normally refers to a company that is set up for the purpose of avoiding or reducing taxes or transferring or accumulating profits. We cannot assure you that any dividends to be distributed by our WFOE operating subsidiaries to our non-PRC subsidiaries who are their respective overseas parent companies, will be entitled to the benefits under the relevant tax treaties or other similar tax arrangements.

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

Under the New 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 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. It is unclear whether dividends we pay with respect to our ordinary shares or ADSs, or the gain you may realize from the transfer of our ordinary 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 New 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 ordinary shares or ADSs, the value of your investment in our ordinary shares or ADSs may be materially and adversely affected.

The New Law also provides that dividend income between “qualified resident enterprises” is exempted income, which may imply that dividends we receive from our PRC subsidiaries would be exempt from income tax if we are treated as a PRC resident enterprise for tax purpose, but we cannot assure you that we will be able to obtain such treatment for dividends paid to us by our PRC subsidiaries. Moreover, if we are deemed to be a PRC resident enterprise under the New Law, a foreign investor in us may be able to claim the benefits of any income tax treaty between his or her resident country and China. We cannot assure you, however, that treaty benefits will be available to you (for example with respect to the withholding tax rate on dividends) even if we are deemed a PRC resident enterprise.

***Our PRC operating subsidiaries and operating affiliates may have engaged in business activities without the necessary registration with local authorities. This could subject us to fines or other penalties, which could negatively impact our revenues or interfere with our ability to operate our business.***

According to relevant PRC laws, a company shall conduct business within its business scope and make supplementary registration with the relevant company registration authority if the company expands or changes its

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business operation. Furthermore, a company that sets up a branch to conduct an advertising business in a location where it is not registered must register with the local branch of the SAIC. As our business expands, some of our indirect operating subsidiaries or our operating affiliates may fail to register with the relevant local branch of SAIC for their expansion of business or for their branch offices in each of the cities where we operate and, as a result, we may be subject to administrative order for rectification and penalties for failing to register. These penalties may include, fines, disgorgement of profits or revocation of business license of our operating subsidiaries or our operating affiliates, although we believe that, as a matter of practice, the authorities typically impose an extreme penalty only after repeated warnings are ignored or where a violation is blatant and continuous. Because of the discretionary nature of regulatory enforcements in the PRC, we cannot assure you that we will not be subject to these penalties as a result of violations of the requirement to register with the local branches of SAIC for our local branch offices or for our expansion of business, or that these penalties would not substantially inhibit our ability to operate our business.

### ***The strengthened scrutiny over acquisition and disposition transactions by the PRC tax authorities may have a negative impact on us or your disposition of our ordinary shares or ADSs.***

Our operations and transactions are subject to review by the PRC tax authorities pursuant to relevant PRC laws and regulations. However, these laws, regulations and legal requirements change frequently, and their interpretation and enforcement involve uncertainties. For example, in connection with the New Law, the Ministry of Finance and State Administration of Taxation jointly issued, on April 30, 2009, the Notice on Issues Concerning Process of Enterprise Income Tax in Enterprise Restructuring Business, or Circular 59. On December 10, 2009, the State Administration of Taxation issued the Notice on Strengthening the Management on Enterprise Income Tax for Non-resident Enterprises Equity Transfer, or Circular 698. Both Circular 59 and Circular 698 became effective retroactively on January 1, 2008. Under the two circulars, we and certain of our subsidiaries and affiliates may be subject to additional income tax on capital gains generated from their disposition of relevant equity interests in 2008, 2009 and 2010. The PRC tax authorities have the discretion under Circular 59 and Circular 698 to make adjustments to the taxable capital gains based on the difference between the fair value of the equity interests transferred and the cost of investment. If the PRC tax authorities make such adjustment, our income tax costs will be increased.

By promulgating and implementing the circulars, the PRC tax authorities have strengthened their scrutiny over the direct or indirect transfer of equity interests in a PRC resident enterprise by a non-resident enterprise. For example, Circular 698 specifies that the PRC State Administration of Taxation is entitled to redefine the nature of an equity transfer where offshore holding vehicles are interposed for tax-avoidance purposes and without reasonable commercial purpose and thus impose PRC income tax to a transfer of equity in an offshore company. Further, non-resident enterprises may be required to file with the PRC tax authorities to report their indirect transfer of equity interests in a PRC resident company if the transferred offshore holding vehicles are incorporated in a tax jurisdiction where the effective income tax rate is less than 12.5% or if the income of its residents derived outside of such jurisdiction is free of income tax. It is not clear to what extent the holders of our shares or ADS will be subject to these requirements. We have conducted and may conduct acquisitions and dispositions involving complex corporate structures, but we may not be able to make timely filing with the PRC tax authorities as requested. The PRC tax authorities may, at their discretion, impose or adjust the capital gains on us for any of our historical or future acquisitions and dispositions or on the holders of our shares or ADSs for their disposition of our shares or ADSs or request us or the holders of our shares or ADSs to submit additional documentation for their review in connection with any relevant acquisitions or disposition, and causing us or the holders of our shares or ADSs to incur additional costs.

### ***A PRC rule on mergers and acquisitions may subject us to sanctions, fines and other penalties and affect our future business growth through acquisition of complementary business.***

On August 8, 2006, six PRC government and regulatory authorities, including the PRC Ministry of Commerce and the Chinese Securities Regulatory Commission, or the CSRC, promulgated a rule entitled “Provisions regarding Mergers and Acquisitions of Domestic Enterprises by Foreign Investors,” or the New M&A Rule, which became effective on September 8, 2006 and was revised in 2009. The New M&A Rule, among other things, requires that an offshore special purpose vehicle, or SPV, formed for the listing purpose through acquisition of a PRC domestic entity and controlled by PRC residents should obtain approval from the CSRC prior to publicly listing its securities on an overseas stock market. Based on consultation with the International Department of the

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CSRC regarding its interpretation of the New M&A Rule, our PRC counsel, Global Law Office, advised us that the CSRC approval was not required for the listing of our ADSs on Nasdaq Global Market and subsequent offerings. However, we cannot assure you that the relevant PRC government agency, including the Ministry of Commerce or other applicable departments of the CSRC, would reach the same conclusion as our PRC counsel. If the CSRC or other PRC regulatory body subsequently determines that the CSRC's approval was, or will be, required for future offerings of our ADSs on Nasdaq Global Market, and we may face sanctions by the CSRC or other PRC regulatory agencies. In such event, these regulatory agencies may impose fines and penalties on our operations in the PRC, limit our operating privileges in the PRC, delay or restrict the repatriation of the proceeds from any offering of our ADSs into the PRC, or take other actions that could have a material adverse effect on our business, financial condition, results of operations, reputation and prospects, as well as the trading price of our ADSs.

The New M&A Rule also established additional procedures and requirements that could make merger and acquisition activities by foreign investors more time-consuming and complex, including requirements in some instances that the Ministry of Commerce be notified in advance of any change-of-control transaction in which a foreign investor takes control of a PRC domestic enterprise. In the future, we may grow our business in part by acquiring complementary businesses, although we do not have any plans to do so at this time. Complying with the requirements of the New M&A Rule to complete such transactions could be time-consuming, and any required approval processes, including obtaining approval from the Ministry of Commerce, may delay or inhibit the completion of such transactions, which could affect our ability to expand our business or maintain our market share.

### ***Restrictions on currency exchange may limit our ability to utilize our revenues effectively.***

Substantially all of our revenues and operating expenses are denominated in Renminbi. The Renminbi is currently convertible under the "current account", which includes dividends, trade and service-related foreign exchange transactions, but not under the "capital account", which includes foreign direct investment and loans. Currently, each of our WFOE operating subsidiaries may purchase foreign exchange for settlement of "current account transactions", including payment of dividends to us, without the approval of SAFE. However, we cannot assure you that the relevant PRC governmental authorities will not further limit or eliminate our ability to purchase foreign currencies in the future. Since a significant amount of our future revenues will be denominated in Renminbi, any existing and future restrictions on currency exchange may limit our ability to utilize revenues generated in Renminbi to fund our business activities outside China, if any, or expenditures denominated in foreign currencies. Foreign exchange transactions under the capital account are still subject to limitations and require approvals from, or registration with, the State Administration of Foreign Exchange and other relevant PRC governmental authorities. This could affect the ability of each of WFOE operating subsidiaries to obtain foreign exchange through debt or equity financing, including by means of loans or capital contributions from us. It may also restrict our ability to remit amounts overseas including to our Cayman Islands holding company. If we transfer amounts to overseas accounts, it may be deemed a dividend paid on profits which is subject to PRC taxation, which could affect the feasibility and efficiency of conducting actions overseas, such as issuing dividends to shareholders, conducting share repurchase programs or otherwise.

### ***Fluctuations in exchange rates could result in foreign currency exchange losses.***

Appreciation or depreciation in the value of the Renminbi relative to the U.S. dollar would affect our financial results reported in U.S. dollar terms without giving effect to any underlying change in our business or results of operations. Since July 2005 the Renminbi is no longer pegged solely to the U.S. dollar. Instead, it is reported to be pegged against a basket of currencies, determined by the People's Bank of China, against which it can rise or fall by as much as 0.3% each day. This change in policy has resulted in the gradual increase in the value of the Renminbi against the U.S. dollar over time. As of December 31, 2010, the Renminbi had appreciated approximately 20.3% against the U.S. dollar since July 21, 2005. On June 3, 2011, the Renminbi was valued against the U.S. dollar at approximately RMB 6.4796 to the U.S. dollar. The Renminbi may appreciate or depreciate significantly in value against the U.S. dollar in the long term, depending on the fluctuation of the basket of currencies against which it is currently valued or it may be permitted to enter into a full float, which may also result in a significant appreciation or depreciation of the Renminbi against the U.S. dollar. Fluctuations in the exchange rate will also affect the relative value of any dividend we issue in the future which will be exchanged into U.S. dollars and earnings from and the value of any U.S. dollar-denominated investments we make in the future.

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Very limited hedging transactions are available in China to reduce our exposure to exchange rate fluctuations. To date, we have not entered into any hedging transactions in an effort 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 magnified by PRC exchange control regulations that restrict our ability to convert Renminbi into foreign currency.

### ***Our financial and operating performance may be adversely affected by epidemics, natural disasters and other catastrophes***

From December 2002 to June 2003, China and other countries experienced an outbreak of a new and highly contagious form of atypical pneumonia now known as severe acute respiratory syndrome, or SARS. On July 5, 2003, the World Health Organization declared that the SARS outbreak had been contained. Since September 2003, however, a number of isolated new cases of SARS have been reported, most recently in central China in April 2004. During May and June of 2003, many businesses in China were closed by the PRC government to prevent transmission of SARS. In addition, many countries, including China, have encountered incidents of the H5N1 strain of bird flu, or avian flu. This disease, which is spread through poultry populations, is capable in some circumstances of being transmitted to humans and is often fatal. In April 2009, an outbreak of the H1N1 virus, also commonly referred to as “swine flu”, occurred in Mexico and spread to other countries. Cases of swine flu were reported in Hong Kong and mainland China. A new outbreak of SARS or an outbreak of avian or swine flu may result in health or other government authorities requiring the closure of our offices or other businesses, including office buildings, retail stores and other commercial venues, which comprise the primary locations where we provide our out-of-home television and poster frame advertising services. Any recurrence of the SARS outbreak, an outbreak of avian or swine flu or a development of a similar health hazard in China, may deter people from congregating in public places, including a range of commercial locations such as office buildings and retail stores. Such occurrences would severely impact the value of our LCD display and poster frame networks to advertisers, significantly reduce the advertising time purchased by advertisers and severely disrupt our business and operations. In addition, losses caused by epidemics, natural disasters and other catastrophes, including earthquakes or typhoons, are either uninsurable or too expensive to justify insuring against in China. In the event an uninsured loss or a loss in excess of insured limits occurs, we could lose all or a portion of the capital we have invested in a hotel, as well as the anticipated future revenues from the hotel. In that event, we might nevertheless remain obligated for any financial commitments related to the hotel.

Similarly, war (including the potential of war), terrorist activity (including threats of terrorist activity), social unrest and heightened travel security measures instituted in response, travel-related accidents, as well as geopolitical uncertainty and international conflict, will affect travel and may in turn have a material adverse effect on our business and results of operations. In addition, we may not be adequately prepared in contingency planning or recovery capability in relation to a major incident or crisis, and as a result, our operational continuity may be adversely and materially affected and our reputation may be harmed.

### **Risks Relating to Our ADSs and Our Trading Markets**

***The price of our ADSs has been volatile and may continue to be volatile, which may make it difficult for holders to resell the ADSs when desired or at attractive prices.***

The trading price of our ADSs has been and may continue to be subject to wide fluctuations. Since July 13, 2005, the closing prices of our ADSs on the Nasdaq Global Market has ranged from a low of \$4.84 to a high of \$65.88 per ADS and the last reported sale price on June 1, 2011 was \$30.5. From July 13, 2005 until April 10, 2007, we used an ADS-to-share ratio of 10-to-one. Starting April 11, 2007, we reduced this ratio to five-to-one. All ADS trading prices on the Nasdaq set forth in this annual report, including historical trading and closing prices, have been adjusted to reflect the new ADS-to-share ratio of five-to-one. Our ADS price may fluctuate in response to a number of events and factors. The financial markets in general, and the market prices for many PRC companies in particular, have experienced extreme volatility that often has been unrelated to the operating performance of such companies.

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In addition to market and industry factors, the price and trading volume for our ADSs may be highly volatile for specific business reasons. Factors such as variations in our revenues, earnings and cash flow, announcements of new investments, cooperation arrangements or acquisitions, and fluctuations in market prices for our advertising network could cause the market price for our ADSs to change substantially. Any of these factors may result in large and sudden changes in the volume and price at which our ADSs will trade. We cannot give any assurance that these factors will not occur in the future.

***As a foreign private issuer, we are permitted to, and we will, rely on exemptions from certain Nasdaq corporate governance standards applicable to U.S. issuers, including the requirement for shareholder approval for the issuance of shares to officers or directors in a private placement at a price less than market value of the shares, which is considered a form of equity compensation. This may afford less protection to holders of our ordinary shares and ADSs.***

The Nasdaq Listing Rules in general require listed companies to follow a stipulated set of corporate governance practices. As a foreign private issuer, we are permitted to, and we will, follow home country corporate governance practices instead of certain requirements of the Nasdaq Listing Rules, including, among others, the shareholder approval rules. Under Nasdaq Listing Rule 5635(c), shareholder approval is required prior to the issuance of securities when a stock option or purchase plan is to be established or materially amended or other equity compensation arrangement made or materially amended, pursuant to which stock may be acquired by officers, directors, employees, or consultants, subject to certain exceptions. This includes the issuance of shares to officers or directors in a private placement at a price less than market value, which is considered a form of equity compensation. The corporate governance practice in our home country, the Cayman Islands, does not require shareholder approval for the issuance of shares to officers or directors in a private placement at a price less than the greater of book value and market value, provided that the directors consider the issue price represents fair value for the shares being issued. We currently rely upon the relevant home country exemption in lieu of the requirement for shareholder approval of such share issuances. For example, in connection with the subscription for our ordinary shares by JJ Media Investment Holding Limited (an entity owned by Jason Nanchun Jiang) in September 2009, our audit committee approved a price equal to the per-share equivalent average trading price of our ADSs during the twenty days prior to the subscription date, which in the event was slightly lower than market value but which our directors considered to represent fair value. As a result, you may receive less shareholder protection from dilution and other matters than if we were not a foreign private issuer.

***We have in the past failed to comply with Nasdaq Listing Rules, including the timely filing of our annual report and maintaining a majority of independent directors on our board of directors.***

Our failure to timely file our 2006 annual report on Form 20-F subjected us to delisting review by the Nasdaq Listing Qualifications Panel. In addition, in the past we previously failed to maintain a majority of independent directors on our board of directors, which put us out of compliance with Nasdaq Listing Rule 5605. See “Management”. On October 4, 2007, we received a letter from Nasdaq Listing Qualifications notifying us that we had regained compliance with all Nasdaq listing qualifications by filing our annual report for 2006.

Our historical failure to comply with Nasdaq Listing Rules has on one occasion subjected us to delisting review. If for any reason we fail to maintain compliance with Nasdaq Listing Rules in the future, we could be subject to additional delisting procedures and sanctions, which could affect our reputation and the market value of our securities, and could result in shareholder litigation, which may divert the attention of our management and force us to expend resources to defend against such claims. Any litigation may have a material and adverse effect on our business and future results of operations.

***A significant percentage of our outstanding ordinary shares is beneficially owned by JJ Media Investment Holding Limited, an entity owned by Jason Nanchun Jiang, our founder, chairman and chief executive officer, and as a result, he may have significantly greater influence on us and our corporate actions by nature of the size of his shareholdings relative to our public shareholders.***

Jason Nanchun Jiang beneficially owns approximately 15.05% of our outstanding ordinary shares through his investment entity JJ Media Investment Holding Limited. Accordingly, Jason Nanchun Jiang has significant influence in determining the outcome of any corporate transaction or other matter submitted to the shareholders for

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approval, including mergers, consolidations and the sale of all or substantially all of our assets, election of directors and other significant corporate actions. Further, Jason Nanchun Jiang is also one of two shareholders of certain of our affiliated PRC entities with which we have contractual arrangements that are essential to our business. The continuing cooperation of these PRC affiliated entities, and their shareholders, branches and subsidiaries, is important to our business. Without Jason Nanchun Jiang's consent, we could be prevented from entering into transactions or conducting business that could be beneficial to us. Accordingly, Mr. Jiang's control of Focus Media Advertisement could hinder any change in control of our business, particularly where such change of control would benefit shareholders other than Mr. Jiang. It would be difficult for us to change our corporate structure if any disputes arise between us and Mr. Jiang or if he fails to carry out his contractual and fiduciary obligations to us. Thus, Jason Nanchun Jiang's interests as an officer and employee may differ from his interests as a shareholder or from the interests of our other shareholders, including you.

***Anti-takeover provisions in our charter documents may discourage any hostile acquisition attempt 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 us, 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 us in a tender offer or similar transaction.

For example, our board of directors will have the authority, without further action by our shareholders, to issue preference 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 ordinary shares. Preference 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 the Board of Directors issues preference shares, the market price of our ordinary shares may fall and the voting and other rights of the holders of our ordinary shares may be adversely affected.

In addition, some actions require the approval of a supermajority of at least two thirds of our board of directors which, among other things, would allow our non-independent directors to block a variety of actions or transactions, such as a merger, asset sale or other change of control, even if all of our independent directors unanimously voted in favor of such action, further depriving our shareholders of an opportunity to sell their shares at a premium. In addition, our directors serve terms of three years each, which terms are not staggered. The length of these terms could present an additional obstacle against the taking of an action, such as a merger or other change of control, that could be in the interest of our shareholders.

***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 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.

As a result of all of the above, public shareholders may have more difficulty 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 public shareholders of a U.S. company.

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

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

### ***The voting rights of holders of ADSs are limited by the terms of the deposit agreement.***

Holders of our ADSs may only exercise their voting rights with respect to the underlying ordinary shares in accordance with the provisions of the deposit agreement. Upon receipt of voting instructions from a holder of ADSs in the manner set forth in the deposit agreement, the depositary will endeavor to vote the underlying ordinary shares in accordance with these instructions. Under our amended and restated memorandum and articles of association and Cayman Islands law, the minimum notice period required for convening a general meeting is ten days. When a general meeting is convened, you may not receive sufficient notice of a shareholders' meeting to permit you to withdraw your ordinary shares to allow you to cast your vote with respect to any specific matter at the meeting. 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 shares. 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 ordinary shares are not voted as you requested.

### ***The depositary for our ADSs will give us a discretionary proxy to vote our ordinary 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 ordinary shares underlying your ADSs at shareholders' meetings if you do not vote, unless:

- we have failed to timely provide the depositary with our notice of meeting and related voting materials;
- 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 as to a matter to be voted on at the meeting;
- a matter to be voted on at the meeting would have a material adverse impact on shareholders; or
- voting at the meeting is made on a show of hands.

The effect of this discretionary proxy is that you cannot prevent our ordinary 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 ordinary shares are not subject to this discretionary proxy.

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***You may not receive distributions on our ordinary shares or any value for them if it is illegal or impractical to make them available to you.***

The depositary of our ADSs has agreed to pay you the cash dividends or other distributions it or the custodian for our ADSs receives on our ordinary shares or other deposited securities after deducting its fees and expenses. You will receive these distributions in proportion to the number of our ordinary shares your ADSs represent. However, the depositary is not responsible if it is unlawful or impractical to make a distribution available to any holders of ADSs. For example, it would be unlawful to make a distribution to a holder of ADSs if it consists of securities that require registration under the Securities Act but that are not properly registered or distributed pursuant to an applicable exemption from registration. The depositary is not responsible for making a distribution available to any holders of ADSs if any government approval or registration required for such distribution cannot be obtained after reasonable efforts made by the depositary. We have no obligation to take any other action to permit the distribution of our ADSs, ordinary shares, rights or anything else to holders of our ADSs. This means that you may not receive the distributions we make on our ordinary shares or any value for them if it is illegal or impractical for us to make them available to you. These restrictions may have a material and adverse effect on the value of your ADSs.

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

Your ADSs represented by American Depositary Receipts are transferable on the books of the depositary. However, the depositary may close its books at any time or from time to time when it deems expedient in connection with the performance of its duties. The depositary may close its books from time to time for a number of reasons, including in connection with corporate events such as a rights offering, during which time the depositary needs to maintain an exact number of ADS holders on its books for a specified period. The depositary may also close its books in emergencies, and on weekends and public holidays. The depositary may refuse to deliver, transfer or register transfers of our ADSs generally when our books or the books of the depositary are closed, or at any time if we or the depositary thinks it is advisable to do so because of any requirement of law or any government or governmental body, or under any provision of the deposit agreement, or for any other reason.

## **ITEM 4. INFORMATION ON THE COMPANY**

### **A. History and Development of the Company**

Our legal and commercial name is Focus Media Holding Limited. Our principal executive offices are located at Unit No. 1 on the 20th Floor of The Centrium, 60 Wyndham Street, Central, Hong Kong, and our telephone number is +852-3752-8009. Our Internet website address is [www.focusmedia.cn](http://www.focusmedia.cn). Our predecessor company, Shanghai Aiqi Advertisement Co., Ltd., or Aiqi Advertisement, was established by immediate family members of Jason Nanchun Jiang in September 1997 and operated as an advertising agency. In May 2003, Aiqi Advertisement discontinued its advertising agency business, was renamed Shanghai Focus Media Advertisement Co., Ltd., commenced operation of our out-of-home television advertising network in China and reorganized its shareholdings. At the same time, we entered into arrangements with Focus Media Advertisement that resulted in the consolidation of Focus Media Advertisement. Following this reorganization Jason Nanchun Jiang continued to hold a controlling interest in Focus Media Advertisement.

In conjunction with the change in our business model in May 2003 and to facilitate foreign investment in our company, we established our offshore holding company, Focus Media Holding Limited as a company registered in the British Virgin Islands. On April 1, 2005, we completed the process of changing Focus Media Holding Limited's corporate domicile to the Cayman Islands and we are now a Cayman Islands company. On July 13, 2005, our ADSs were listed for quotation on the Nasdaq Global Market and on July 19, we and certain of our shareholders completed an initial public offering and sale of 11,615,000 ADSs.

In January 2006, we acquired Infoachieve Limited which is also referred to as Framedia throughout this annual report, which operates a network of advertising poster frames placed primarily in elevators and public areas of residential complexes in China.

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In January 2006, we and certain of our shareholders completed a public offering and sale of 7,415,389 ADSs.

In February 2006, we acquired Target Media, which operated an out-of-home advertising network using flat-panel displays placed in elevator lobbies and other public areas in commercial buildings, hospitals, hotels, banks, residential buildings, convenience stores and other locations in cities in China. Since the completion of the acquisition of Target Media, the legal entities of Target Media and its affiliates and subsidiaries have been dissolved and their operations have been integrated with our operations.

In March 2006, we acquired Dotad Media Holdings, which operates a mobile-phone advertising service in China through China Mobile and China Unicom's mobile phone networks. Following the acquisition of Dotad Media Holdings, we renamed the acquired company Focus Media Wireless Co., Ltd., which is also referred to as Focus Media Wireless throughout this annual report. In December 2008, we discontinued operations of our mobile handset advertising network, and this business is accounted for as a discontinued operation.

On June 21, 2006, we and certain of our shareholders completed a public offering and sale of 7,700,000 ADSs.

In September 2006, we completed the acquisition of 70% of the equity interest in Appreciate Capital Limited, or ACL, a British Virgin Islands company. ACL, through its affiliated PRC entity, leases screen time from movie theaters in cities in China, which it then sells as screen time slots to advertisers.

In September 2006, certain of our shareholders completed a public offering and sale of 2,459,345 ADSs.

In September 2006, Jason Nanchun Jiang (through his entity JJ Media Investment Holding Limited), our chairman, entered into a variable pre-paid forward contract with Credit Suisse, pursuant to which JJ Media Investment Holding Limited pledged and monetized 20 million of our ordinary shares held by JJ Media Investment Holding Limited.

During the fourth quarter of 2006, we completed the acquisition of Fengjing Advertisement. We signed a definitive term sheet to acquire 95% of Fengjing Advertisement Company ("Fengjing") in July 2006 to further expand our outdoor LED network in Shanghai.

In March 2007, we completed the acquisition of Allyes Information Technology Company Limited, or Allyes, a Cayman Islands company, which operates an Internet advertising marketing agency and technology services company through its PRC affiliated entities.

In June 2007, we acquired Hua Kuang Advertising Company Limited, a Hong Kong company, and its PRC subsidiary, which operates a traditional billboard network through its PRC affiliates.

On November 13, 2007, we and certain of our shareholders, primarily consisting of the former shareholders of Framedia, Dotad and Allyes, completed a public offering and sale of 13,720,873 ADSs, representing 68,604,365 ordinary shares.

On January 2, 2008, we completed the acquisition of CGEN Digital Media Company Limited, or CGEN. In accordance with the share purchase agreement entered into on December 10, 2007, we made a cash payment of US\$168.4 million to the former CGEN shareholders and the former CGEN shareholders delivered 100% of the equity interest in CGEN to us. In December 2008, we disposed of CGEN, and no longer receive revenues from this business.

On March 20, 2008, our executive chairman Jason Nanchun Jiang, through his entity JJ Media Investment Holding Limited, purchased 100,000 Focus Media ADSs at an average price of USD 34.19 per ADS in the open market.

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On July 16, 2008, we announced the implementation of a share repurchase program of up to \$100 million, pursuant to which we repurchased approximately 2,588,342 of our ADSs on the open market for approximately \$47.5 million.

On September 23, 2009, Jason Nanchun Jiang, through JJ Media Investment Holding Limited, subscribed for 75 million ordinary shares to be newly issued by the Company. The shares were issued on November 18, 2009.

In January 2010, certain Allyes employees and management and directors and certain members of our management and directors entered into a definitive agreement with us and Allyes to buy-out an aggregate 38% interest in Allyes from us. Pursuant to the terms of the agreements, the purchasing Allyes and Company management members paid an aggregate \$13.3 million for a 38% interest of Allyes.

In February 2010, we announced the implementation of a share repurchase program of up to \$200 million over the next twelve months which we increased to up to \$300 million in August 2010. We repurchased approximately 12,050,786 of our ADSs for approximately \$239.7 million up to May 31, 2011, which included a privately negotiated repurchase of 9,523,810 ADSs from Fosun International for \$200 million.

On September 13, 2010, Jason Nanchun Jiang, through JJ Media Investment Holding Limited, sold 8,100,000 of our ADSs at a price of \$18.90 per ADS.

On January 13, 2011, we paid approximately \$61.0 million to purchase 15,331,305, or approximately 15%, of the outstanding shares of VisionChina Media Inc. (“VisionChina Media”) (Nasdaq: VISON), one of China’s largest out-of-home digital television advertising networks on mass transportation systems.

For a description of our principal capital expenditures and divestitures, see “Acquisitions” and “Capital Expenditure” in “Item 5. Operating and Financial Review and Prospects—Acquisitions” and “—B. Liquidity and Capital Resources—Capital Expenditures”.

## **B. Business Overview**

The Company is founded on two major premises:

- Continued growth of the Chinese advertising market driven by the increasing urban population and the increasing disposable income of the Chinese population impelled by continued moderate to high speed GDP growth in China
- The philosophy that the evolution of the Chinese urban population lifestyle triggers the evolution of the advertising spending pattern in China and hence presents market opportunities for the company to capture the shift in advertising spending. As the Chinese urban population lifestyle changes, consumers become increasingly more elusive to advertisers, and have over time resulted in making traditional media such as television and newspapers advertising increasingly ineffective and inefficient. As a result, the Company has and will continue to seek to build dominant market share in media platforms that are more effective and efficient in capturing the attention of the Chinese urban population.

We are now a China’s leading multi-platform digital media company, operate the largest LCD display network in China using audiovisual digital displays in commercial locations, based on the number of locations and number of LCD flat-panel television displays in our network, the largest poster frame network, based on the number of locations and number of poster frames and digital poster frames in our network, operate the largest LCD display network in China using audiovisual digital displays in supermarkets and hypermarkets, and also are a leading provider of Internet marketing solutions in China

The following is a summary description of the networks we operate:

- *our LCD display network*, which refers to our network of flat-panel television displays placed in high-traffic areas of commercial and public buildings marketed to advertisers as a network or as seven

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- separate channels targeting different types of consumers—our premier A and B office building channels, travel, fashion, elite and IT mall channels;
- *our poster frame network*, which refers to our network of traditional and digital advertising poster frames placed mainly in the elevators and public areas of residential complexes which we market under the brand name Framedia;
- *our in-store network*, which refers to our network of flat-panel television displays placed in specific product areas inside stores with high-traffic concentrations such as selected consumer product sections, the main aisles and check-out lines in large-scale chain retail stores, or hypermarkets, as well as inside selected supermarkets and convenience stores;
- *our traditional billboard network*, which refers to our network of large outdoor poster billboards installed on street-sides in major shopping districts and other locations with heavy pedestrian traffic in Shanghai, Beijing, Guangzhou, Shenzhen and other cities in China; and
- *our movie theater advertising network*, which refers to our right to sell advertising time on movie screens for the three minutes prior to movie screenings at movie theaters in China.

Since we commenced our current business operations in May 2003, we have experienced significant growth in our network and in our financial results. As of December 31, 2010, we operated our LCD display network directly in over 66 major cities throughout China, including Beijing, Shanghai, Guangzhou and Shenzhen. As of December 31, 2010, we covered approximately 34 additional cities through contractual arrangements with regional distributors. Between January 1, 2010 and December 31, 2010, the number of displays in our LCD display network increased from 131,006 to 164,575. In the first quarter of 2009, we suspended operation of a significant portion of the approximately 200 outdoor LED billboards we had operated in Shanghai due to new government regulations governing the use of curbside billboards. For the same reason, we suspended operation of the LED billboard aboard the boat. As of December 31, 2010, we operated approximately 96 digital outdoor billboards and 249 traditional billboards in prime commercial and shopping areas and along national and provincial highways and leased screentime in approximately 260 movie theaters (consisting 1,553 screens) in cities across China and Hong Kong SAR. In addition, as of the same date, the installed base of our hypermarkets network was 1,455 stores. Our in-store network also covered 229 supermarkets and 1,174 convenience stores as of December 31, 2010. The number of displays installed in our in-store network was 48,179 as of December 31, 2010. The total number of non-digital frames available for sale on our poster frame network was 300,012 as of December 31, 2010, as well as 35,810 digital frames as of the same date, mainly in Beijing, Shanghai, Guangzhou and Shenzhen.

The following table sets forth operating data related to our network for the periods indicated:

	For and as of the three months ended							
	March 31, 2009	June 30, 2009	September 30, 2009	December 31, 2009	March 31, 2010	June 30, 2010	September 30, 2010	December 31, 2010
<b>LCD display network:</b>								
Number of displays:								
Our direct cities	125,796	128,089	125,467	125,595	126,289	137,701	144,392	157,916
Our regional distributors(1)	5,423	5,425	5,423	5,411	6,196	5,234	5,521	6,659
<b>Total</b>	<b>131,219</b>	<b>133,514</b>	<b>130,890</b>	<b>131,006</b>	<b>132,485</b>	<b>142,305</b>	<b>149,913</b>	<b>164,575</b>
<b>In-store network:(2)</b>								
Number of displays in our in-store network								
	42,340	44,783	45,195	44,517	40,848	45,686	45,613	48,179
Number of stores in our in-store network								
	3,171	3,209	3,265	3,097	2,772	2,845	2,587	2,858
<b>Poster frame network:</b>								
Number of frames installed in our poster frame network(3)								
	327,969	284,988	262,301	261,076	270,759	274,524	312,487	335,822

(1) Data that has been provided by our regional distributors is based on the results of surveys we requested them to provide to us and it is possible such data is not entirely accurate

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- (2) In the first quarter of 2010, the decline in number of displays and stores of our in-store network was due to the termination of rental contracts with two major chain stores but one of them was subsequently renewed in the second quarter of 2010 at a lower price.
- (3) Includes both traditional poster frames and, for periods starting from June 30, 2007, digital frames.

### ***LCD display network***

The majority of displays on our LCD display network are currently placed in heavy-traffic areas of commercial office buildings. The locations in our LCD display network also include shopping malls, banks, hotels and certain airports. We market our LCD display network to advertisers of consumer products and services, such as automobiles, home electronics, mobile communications devices and services, cosmetics, health products and financial services. As of December 31, 2010, our LCD display network, including the portions of our LCD display network operated by our regional distributors, was comprised of 164,575 flat-panel displays placed in approximately 100 cities throughout China. We operate our LCD display network directly in approximately 66 cities and indirectly through contractual arrangements with regional distributors in approximately 34 additional cities. We have established distributors in 29 countries and regions outside of mainland China, including Hong Kong, Taiwan, Singapore, Philippines, Vietnam, Indonesia, Malaysia, India, Central America and Panama, Australia, Russia, Argentina and Chile and 17 countries in Europe, through contracts with local operators which operate local commercial location networks and which license our brand name. None of these arrangements outside of China currently constitutes a material part of our business.

As we expand the number of venues in our LCD display network, we continue to separate certain types of venues into distinct stand-alone channels of this network. As of December 31, 2010, we had established four such stand-alone channels that are marketed as separate focused channels of our LCD display network: our premier office building A and B, travel and outdoor LED billboard network channels. Starting from January 1, 2011, we restructured our premier office building A and B channels into premier office building A1 and A2 channels to create more network capacity resources.

A majority of the content displayed on our LCD and in-store networks consists of advertisements which are broadcast repeatedly approximately 60 times throughout a day. Advertisements on our outdoor LED billboard network are broadcast repeatedly approximately 120 times throughout a day.

We believe that by increasingly offering new advertising channels on our out-of-home television networks, we will be able to offer advertisers more targeted and effective audience reach, thereby enabling us to increase our advertising rates.

Expanding our network through regional distributors enables us to provide our advertisers with broader nationwide coverage and to test, develop and evaluate these regional advertising markets without our having to incur start-up and ongoing expenses at the early stages of their development. We also seek to acquire our regional distributors when we believe it is more likely for us to benefit economically from the full integration of their operations into our network. We do not have the contractual right to purchase our regional distributors, and any such acquisition must be negotiated with each regional distributor separately.

Each of our regional distributors operates independently from us and is responsible for independently complying with all relevant PRC laws and regulations including those related to advertising. We periodically monitor our regional distributors to ensure they have obtained all required licenses and are complying with regulations relating to advertising content. See “Item 3D Risk Factors — Risks Relating to Our Business and Industry — One or more of our regional distributors could engage in activities that are harmful to our reputation in the industry and to our business”.

### ***Traditional billboard network***

We operate traditional outdoor billboards of approximately 200 square meters to 300 square meters in size that are installed on the street-sides in major shopping districts and other locations with heavy pedestrian traffic in

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Beijing, Shanghai, Guangzhou and most tier 2 cities. We also operate traditional poster billboards of 18 meters by 6 meters by the roadsides of national and provincial highways. As of December 31, 2010, we operated approximately 249 traditional billboards in prime commercial and shopping areas and along national and provincial highways.

### ***Movie theater advertising network***

We operate our movie theater advertising network by selling leased screen time as time slots to advertisers. We have the right to three minutes of screen time prior to the screening of each movie shown in the theater. As of December 31, 2010, we had rights to lease advertising time on screens in 260 movie theaters (consisting 1,553 screens) in cities across China and Hong Kong SAR.

### ***In-store Network***

As part of our growth strategy, we commenced operations of our in-store network in April 2005. As of December 31, 2010, we had placed 48,179 flat-panel displays in 1,455 hypermarkets, 229 supermarkets and 1,174 convenience stores throughout China. We believe the rapid expansion of hypermarkets and other chain retail stores in China provides opportunities and incentives for advertisers to take advantage of in-store television advertising networks such as our in-store network. Our in-store network primarily attracts advertisers of food and beverage products, cosmetics, health products, household, kitchen and bathroom products and household appliances.

In January 2008, we completed the acquisition of CGEN. In December 2008, we disposed of the CGEN operations. Accordingly, the CGEN portion of our in-store network has ceased operations and we no longer derive material revenues from this operation.

### ***Poster Frame Network***

We own and operate a network of traditional and digital advertising poster frames deployed primarily in the elevators and public areas of residential complexes under the brand name "Framedia". We place two or three advertising frames in each elevator in which we lease space and sell frame space to advertising clients on a per frame basis for periods of two weeks or longer. As of December 31, 2010, we had installed 300,012 poster frames including 35,810 digital poster frames in cities throughout China. Our digital frames use high-resolution LCD displays with integrated sound, all-angle viewing and remote control technologies. Our advertising posters include both traditional printed posters as well as digital LCD poster frames with integrated sound, all-angle and remote control technologies placed in elevators and public areas in residential complexes and commercial locations. Generally two or three advertising poster frames can be placed in each elevator. Advertisements on our digital LCD poster frames are broadcast repeatedly approximately 480 times throughout a day.

### ***Advertising Clients, Sales and Marketing***

***Our Advertising Clients.*** The quality and coverage of our network has attracted a broad base of international and domestic advertising clients. Our advertising clients include leading international and domestic brand name advertisers such as China Telecom, P&G China, L'Oreal China, Mazda, Yili Dairy, Mengniu Dairy, China Mobile, Subaru China, Beingmate, and Mercedes Benz, which together accounted for approximately 18.5% of our aggregate revenue for continuing operations in 2010.

No single advertising client accounted for more than 3% of our revenues in 2010. We believe the appeal and effectiveness of our advertising network is largely evidenced by the number of advertising clients who place multiple advertising campaigns on our network, which is reflected in the percentage increase of advertising fees we receive from clients over time.

***Sales.*** We employ an experienced advertising sales force in each city in which we operate. We provide in-house education and training to our sales force to ensure they provide our current and prospective clients with comprehensive information about our services, the advantages of using our advertising networks as marketing channels, and relevant information regarding the advertising industry. Our sales team is organized by city, industry and client accounts. We also market our advertising services from time to time by placing advertisements on third-

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party media, including primarily magazines and Internet websites. We maintain separate sales teams for our poster frame network and our Internet advertising services network. We have begun engaging in limited cross-selling initiatives to enable existing and potential advertising clients to take advantage of our multi-platform advertising network.

**Advertising Contracts.** We offer advertisers five-, fifteen- or thirty-second time slots on our LCD display, in-store, outdoor LED and movie theater advertising networks. For our LCD display network, our standard advertising package includes a time slot on our entire network or a particular channel in each city in which the advertiser wishes to display the advertisement. For our traditional billboard network, we provide billboard space on a monthly basis. For our movie theater advertising network, time slots are sold on a regional or entire network basis. Our sales are made pursuant to written contracts with commitments ranging from one week to several months. Our advertising rates vary by city and by the number of cities in which the advertisement is placed, as well as by the length of the time slot purchased and the duration of the advertising campaign. We generally require our clients to submit advertising content at least seven days prior to the campaign start date. We also reserve the right to refuse to disseminate advertisements that are not in compliance with content requirements under PRC laws and regulations.

Advertising contracts for our in-store network, outdoor LED network and movie theater advertising network are substantially similar to those used for our LCD flat-panel display network. Advertising clients generally purchase time slots on our in-store network on a chain-by-chain basis, while time slots on the outdoor LED network cover the entire network and contracts on our movie theater advertising network are done on a regional or entire network basis.

For our traditional poster frame network, advertising clients purchase frame space on a per-frame basis for terms of one week or more. For our digital poster frame network, we offer advertisers fifteen-second time slots by 480 times a day.

**Network Monitoring and Media Measurement.** We provide a number of services in connection with each client's advertising campaign following the sales process. Our network operations team monitors the displays in our network on a daily basis. They are also responsible for compiling reports that are supplied under some of our agreements to clients as evidence of the broadcast of their advertisements on our network. The report generally includes a list of buildings where our client's advertisements were broadcast as well as photographs of representative television displays showing their advertisements being displayed. The advertising campaign reports are provided to our clients for information purposes and do not constitute a customer acceptance provision. The reports we provide to our clients may also contain portions prepared by independent third-party research companies that verify the proper functioning of our flat-panel displays and the proper dissemination of the advertisement, by conducting on-site evaluations and polls to analyze the effectiveness of and public reaction to the advertisement.

Aside from third-party verification services, we and our regional distributors conduct substantially all client services using our own employees or the employees of the relevant regional distributor. In Beijing and Guangzhou, we contract some of these services to third-party agents. These agents provide us with network development, installation, maintenance, monitoring and reporting services.

We believe our advertising clients derive substantial value from our ability to provide advertising services targeted at specific segments of consumer markets. Market research is an important part of evaluating the effectiveness and value of our business to advertisers. 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 Nielsen Media Research, CTR Market Research and Sinomonitor. 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 people who visit the locations of our network.

## **Programming**

Substantially all of the content on our out-of-home television advertising networks consists of audiovisual television advertising provided to us by our advertising clients. We also provide a limited amount of time for

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landlords and property managers to display location-specific information, building announcements and related promotional material on our network. We do not produce or create any of the advertising content shown on our network, except our own marketing content. All of the advertising content displayed on the portion of the network we operate directly is reviewed by qualified members of our staff to ensure compliance with PRC laws and regulations, while our agreements with our regional distributors require each of them to review the contents shown on the portion of the network they operate for compliance with PRC laws and regulations. See “Item 4.B Information on the Company—Business Overview—Regulatory Matters — Regulation of Advertising Services — Advertising Content”.

Advertisements on our poster frame network consist of full-color glossy advertising posters designed and provided by our advertising clients.

### **Pricing**

For information regarding factors affecting our pricing, refer to “Factors that Affect Our Advertising Service Revenue” in Item 5 — Operating and Financial Review and Prospects.

### ***Relationships with Location Providers***

We install our flat-panel displays in selected spaces we lease in office buildings and other commercial locations, hypermarkets, supermarkets and convenience stores. We install our advertising poster frames in elevators and other public areas in residential complexes. Establishing and maintaining long-term relationships with landlords and property managers is a critical aspect of our business. We employ a team of location relationship personnel in each city in which we operate directly who are responsible for identifying desirable locations, negotiating display and frame placement agreements and engaging in ongoing site placement relations.

In addition to helping us to expand our network, our location relationship personnel ensure that the needs and concerns of landlords and property managers are being met and addressed effectively and on a timely basis. These concerns generally include ensuring that the flat-panel displays are properly installed and are in proper working condition. We undertake to landlords and property managers in our network to maintain the proper operation of our flat-panel displays. We generally rely on our own employees to install, maintain, monitor and repair our flat-panel displays and advertising poster frames. Each of our flat-panel displays is inspected at least once daily.

We enter into display placement agreements with individual landlords, property managers, hotels, shopping malls and chain store companies under which we generally pay a fixed annual rent in exchange for the right to display advertising and commercial media in lobby and elevator areas in the case of our commercial location network and in specific product areas in the major aisles and near check-out counters in hypermarkets, supermarkets and convenience stores in the case of our in-store network. In Beijing and Guangzhou, we contract a portion of the location development, monitoring and maintenance work to local agents. We attempt to maintain terms favorable to our network operations in our display placement agreements, such as long-term leases and exclusivity provisions. We are not reliant on any one landlord or property manager for a material portion of our network coverage. As hypermarkets, supermarkets and convenience stores have control over multiple locations, a smaller number of display placement agreements and contractual arrangements account for a larger percentage of our in-store network coverage.

We believe that landlords and property managers generally do not view us as a major source of revenue and are instead primarily attracted to our flat-panel displays as an innovative and visually pleasing medium that complements their public areas and that provides an engaging means of conveying building-related information to their tenants. In connection with certain of our display placement agreements, we agree to provide concessions and services, such as displaying building-related notifications, publicity and other information provided by the landlord or property manager or granting time slots to the landlord or property manager for their own promotional purposes.

Our display placement agreements have initial terms ranging anywhere from one to ten years. As of December 31, 2010, we had the right under the majority of our display placement agreements to renew the display placement agreements provided that the terms offered by us are no less favorable than those offered by competing

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bidders. The rental terms and fees under our display placement agreements vary considerably depending on the city, location of the building, size of the building and number of flat-panel displays that may be installed. Under our display placement agreements, we retain ownership of the flat-panel displays.

We enter into similar frame and billboard placement agreements for the deployment of our advertising poster frames in elevators and public areas of residential complexes and commercial buildings and for traditional outdoor billboards. The majority of our frame placement agreements have terms of two to three years, and contain exclusivity and best offer renewal rights.

### **Technology and Suppliers**

Out-of-home television advertising is a relatively new advertising medium that owes its development in large part to the emergence of new technologies, such as low-cost, light-weight, flat-panel television displays and compact storage technology. The primary hardware required for the operation of our business consists of components that comprise the flat-panel displays we use in our advertising network. We also develop and install software in our flat-panel displays to assist us with the configuration, editing and operation of our advertising content cycles. Maintaining a steady supply of our proprietary flat-panel displays is important to our operations and the growth of our advertising network.

We design the distinctive shape of our flat-panel displays, identify suppliers of component parts used in our displays and contract the assembly of our flat-panel displays to third-party contract assemblers. Our contract assemblers are responsible for purchasing the component parts from suppliers we identify each month and assembling the flat-panel displays according to our specifications using components purchased in off-the-shelf form from wholesale distributors. We select component suppliers based on price and quality. As there are many qualified alternative suppliers for our equipment, our obligation to our current contract assemblers is not exclusive. We have never experienced any material delay or interruption in the supply of our flat-panel displays.

Our services provided through Allyes use proprietary ad serving solutions that assist advertisers, advertising agencies and web publishers in creating and delivering Internet ads, monitoring and analyzing website traffic, tracking the performance of advertising campaigns and implementing direct marketing. Most of the Allyes software applications, from Internet marketing technologies to the applications that operate our servers, are proprietary and were developed in-house by Allyes' research and development team.

### **Competition**

We compete with other advertising companies in China including television broadcasters, newspapers and magazines as well as companies that operate outdoor and out-of-home or telecommunications-based advertising media networks, such as JCDecaux, ClearMedia, SearchMedia, AirMedia and VisionChina. We purchased approximately 15% of VisionChina's outstanding shares in January 2011. We compete for advertising clients primarily on the basis of our strength of our sales force, 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 Internet, street furniture, billboard, frame and public transport advertising companies, and with traditional advertising media, such as newspapers, television, magazines and radio. We have developed a business model that we believe enables us to:

- attain high market share;
- offer relatively fixed costs that allow us to leverage our earnings on revenue growth; and
- maintain relative control over our rental costs.

### **Facilities**

We currently maintain our headquarters at Unit No. 1, 20th Floor, The Centrium, 60 Wyndham Street, Central, Hong Kong. We also have offices in more than 46 other cities in China.

### **Regulatory Matters**

We operate our business in China under a legal regime consisting of the State Council, which is the highest authority of the executive branch of the PRC central government, and several ministries and agencies under its authority including the State Administration for Industry and Commerce, or SAIC.

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China's Advertising Law was promulgated in 1994. In addition, the State Council, SAIC and other ministries and agencies have issued regulations that regulate our business, which are discussed below.

### **Limitations on Foreign Ownership in the Advertising Industry**

The principal regulations governing foreign ownership in the advertising industry in China include:

- The Catalogue for Guiding Foreign Investment in Industry (2007); and
- The Administrative Regulations on Foreign-invested Advertising Enterprises (2008).

These regulations require foreign entities that directly invest in the advertising industry to have at least two years of direct operations in the advertising industry outside of China. Since December 10, 2005, foreign investors have been permitted to own directly a 100% interest in advertising companies in China, but such foreign investors are also required to have at least three years of direct operations in the advertising industry outside of China. PRC laws and regulations do not permit the transfer of any approvals, licenses or permits, including business licenses containing a scope of business that permits engaging in the advertising business. In the event we are able to qualify to acquire the equity interest of our PRC operating affiliates under the rules allowing complete foreign ownership, our PRC operating subsidiaries would continue to exist as the holders of the required advertising licenses consistent with current regulatory requirements.

Since we have not been involved in advertising outside of China for the required number of years, our WFOE operating subsidiaries, which are directly owned by non-PRC subsidiaries of ours, are currently ineligible to apply for the required advertising services licenses in China. Our non-PRC subsidiaries are ineligible to apply for such required licenses too. As such, our advertising business is currently provided partly through contractual arrangements between certain of our WFOE operating subsidiaries and our consolidated affiliated entities in China, which we collectively refer to as our PRC operating affiliates, including Shanghai Focus Media Advertisement Co., Ltd. and its subsidiaries with regard to our out-of-home television networks and movie theatre advertising network. Our poster frame network, traditional billboard network and a portion of our out-of-home television network are conducted by our indirect PRC subsidiaries owned by our WFOE operating subsidiaries. Accordingly, our advertising services are currently conducted by (i) our indirect PRC operating subsidiaries and (ii) our PRC operating affiliates. Our PRC operating affiliates are owned or controlled by (i) one or more individuals designated by us, (ii) one or more PRC entities owned by other PRC operating affiliates or (iii) a combination of individuals and PRC entities owned by other PRC operating affiliates. Certain of our PRC operating affiliates and certain of our indirect PRC operating subsidiaries hold the requisite licenses to provide advertising services in China. Our PRC operating subsidiaries have entered into a series of contractual arrangements with certain of our PRC operating affiliates and their respective shareholders under which:

- we are able to exert effective control over our PRC operating affiliates;
- a substantial portion of the economic benefits of our PRC operating affiliates will be maintained by us; and
- we have an exclusive option to purchase all or part of the equity interests in our PRC operating affiliates that are owned by the individuals or entities designated by us, as well as all or a part of the assets of our PRC operating affiliates, in each case when and to the extent permitted by PRC law.

See "Item 4.C Information on the Company—Organizational Structure" and "Item 7.B Major Shareholders and Related Party Transactions—Related Party Transactions".

Current PRC regulations, however, do not treat an indirect PRC subsidiary of a foreign entity as a "foreign invested enterprise" where such PRC subsidiary is owned directly by a PRC entity. As such, our indirect PRC operating subsidiaries which are directly owned by our WFOE operating subsidiaries are not expressly subject to the restrictions on foreign investment in advertising industry and are eligible to apply for the required licenses for providing advertising services in China. Several of our indirect PRC operating subsidiaries, such as Shanghai Focus

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Media Defeng Advertisement Co., Ltd., or Focus Media Defeng Advertisement, have obtained such licenses and a portion of our commercial location network advertising business is carried out through such indirect PRC operating subsidiaries.

In the opinion of Global Law Office, our PRC legal counsel,

- the respective ownership structures of our PRC operating subsidiaries and their respective PRC affiliates and subsidiaries are in compliance with existing PRC laws and regulations;
- the contractual arrangements among our PRC operating subsidiaries and their respective PRC affiliates, subsidiaries and PRC shareholders of their PRC affiliates, in each case governed by PRC law are valid, binding and enforceable, and will not result in any violation of PRC laws or regulations currently in effect, save that equity pledge created under equity pledge agreements are unenforceable before the relevant equity pledge registration with the local SAIC is duly completed; and
- the PRC business operations of our PRC operating subsidiaries and their respective affiliates and subsidiaries as described in this annual report, are in compliance with existing PRC laws and regulations in all material respects.

We have been advised by our PRC legal counsel, however, that there are substantial uncertainties regarding the interpretation and application of current and future PRC laws and regulations. Accordingly, there can be no assurance that the PRC regulatory authorities, in particular the SAIC which regulates advertising companies, will not in the future take a view that is contrary to the opinion of our PRC legal counsel. We have been further advised by our PRC counsel that if the PRC government determines that the agreements establishing the structure for operating our PRC advertising business do not comply with PRC government restrictions on foreign investment in the advertising industry, we could be subject to severe penalties. See “Item 3.D Key Information—Risk Factors — Risks Relating to Regulation of Our Business and to Our Structure — If the PRC government finds that the ownership structure of our operating subsidiaries or our operation affiliates, or the agreements that establish the structure for operating our China business do not comply with PRC governmental restrictions on foreign investment in the advertising industry, we could be subject to severe penalties”, “—If the PRC government finds that the ownership structure of our operation affiliates violates PRC laws as a result of the change in Jason Nanchun Jiang’s citizenship, we could be subject to severe penalties, and our ability to conduct our business may be affected in a material and adverse way”, and “—We use contractual arrangements with our PRC operating affiliates and their shareholders for a significant portion of our China operations, and uncertainties in the PRC legal system could limit our ability to enforce these contractual arrangements and thus our ability to conduct our business”.

### **Regulation of Advertising Services**

#### ***Business License for Advertising Companies***

The principal regulations governing advertising businesses in China include:

- The Advertising Law (1994);
- The Advertising Administrative Regulations (1987); and
- The Implementing Rules for the Advertising Administrative Regulations (2004).

These regulations stipulate that companies that engage in advertising activities must obtain from the SAIC or its local branches a business license which specifically includes operating an advertising business within its business scope. Companies conducting advertising activities without such a license may be subject to penalties, including fines, confiscation of advertising income and orders to cease advertising operations. The business license of an advertising company is valid for the duration of its existence, unless the license is suspended or revoked due to a violation of any relevant law or regulation. We do not expect to encounter any difficulties in maintaining our business licenses. Our PRC operating affiliates, certain of their respective subsidiaries and certain of our indirect

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PRC operating subsidiaries have obtained, or in the case of some of our new directly-operated cities, are in the process of obtaining such a business license from the local branches of the SAIC as required by the existing PRC regulations. Some of our regional distributors may not possess all the licenses required to operate an advertising business, or may fail to maintain the licenses they currently hold. We periodically monitor our regional distributors to ensure they have obtained all required licenses and are complying with regulations relating to advertising content, although it is possible that one or more of our regional distributors may not be in compliance with all PRC regulations at all times. To our knowledge, all of our regional distributors have received, or are in the process of obtaining, the licenses required to operate an advertising business. If we learn that any of our regional distributors are not in compliance with applicable terms and regulations we notify such regional distributors of the need to complete any necessary procedures and to report any developments to us. If a regional distributor fails to complete the steps necessary to receive the required licenses, we will take steps to terminate the contract with such regional distributor. See “Item 3.D Key Information—Risk Factors — Risks Relating to Our Business and Industry — One or more of our regional distributors could engage in activities that are harmful to our reputation in the industry and to our business”.

### *Advertising Content*

PRC advertising laws and regulations set forth certain content requirements for advertisements in China, which include prohibitions on, among other things, 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. It is prohibited to disseminate tobacco advertisements via broadcast or print media. It is also prohibited to display tobacco advertisements in any waiting lounge, theater, cinema, conference hall, stadium or other public area. 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 advertised through radio, film, television, newspaper, magazine, out-of-home and other forms of media, together with any other advertisements which are subject to censorship by administrative authorities according to relevant laws and administrative regulations, must be submitted to the relevant administrative authorities in charge of administering relevant industries for content approval prior to dissemination. Detailed requirements on the aforesaid content approval vary based on the type of the advertised commodity under various special advertising regulations. In general, the relevant governmental authorities will review the supporting documents evidencing that the relevant advertisement clients have obtained requisite industry licenses or qualifications for their business operation and sufficient permits required for specific type of the communities, and the supporting documents justifying the accuracy of the advertisement contents such as certificates of patents as described by relevant advertisements. Upon the approval, the relevant approval authorities usually issue certificates or permits evidencing the approval. We do not believe that advertisements containing content subject to restriction or censorship comprise a material portion of the advertisements shown on our network.

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 are true and in full compliance with applicable law. In providing advertising services, advertising operators and advertising distributors must employ qualified advertising inspectors to review the prescribed supporting documents provided by advertisers for advertisements and to verify that the content of the advertisements comply with applicable PRC laws and regulations. We also design our advertising contracts terms to provide us with the contractual rights to early terminate the agreements and cancel the advertisement dissemination plan in case the advertisement contents contradict the content requirements under the PRC laws. In addition, prior to distributing advertisements for certain commodities and services which are subject to government censorship and approval, advertising distributors are obligated to ensure that such censorship has been performed and approval has been obtained. For example, for those subject to prior content approval such as health foods, medical instruments, medical treatments, pharmaceuticals, veterinary pharmaceuticals and pesticides, the advertising distributors are obligated to review the prior content approval certificate or permits. For certain other types of advertisements such as those on foodstuffs, cosmetics, real properties, alcohol, and cultural performances, the advertising distributors are required to review special supporting documents evidencing the accuracy of the advertisement contents, including without limitation proof of quality inspection of the advertised products or services. 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

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an advertisement correcting the misleading information. In circumstances involving serious violations, the SAIC or its local branches may revoke violators' licenses or permits for advertising business operations. Furthermore, advertisers, advertising operators or advertising distributors may be subject to civil liability if they infringe on the legal rights and interests of third parties such as the intellectual property rights of the other parties or the reputation of our clients' competitors in the course of their advertising business.

Our sales function is separate from our legal and compliance function, but we train all of our sales staff to be aware and knowledgeable about government rules and regulations relating to advertising content. We do not generally produce or generate advertising content ourselves, but disseminate advertising content that has already been produced and been through the necessary review and approval processes, and do not believe there are significant conflicts between our staff's sales role and the need to review for legal compliance. Our legal and compliance function separately reviews content for compliance with relevant laws. In addition, as we generally do not produce advertising content but display advertising produced by our clients or their advertising agents, we require our clients to provide advertising content that has been reviewed by the relevant authorities and received the relevant approvals.

### ***Outdoor Advertising***

The Advertising Law stipulates that the exhibition and display of outdoor advertisements must not:

- utilize traffic safety facilities and traffic signs;
- impede the use of public facilities, traffic safety facilities and traffic signs;
- obstruct commercial and public activities or create an eyesore in urban areas;
- be placed in restrictive areas near government offices, cultural landmarks or historical or scenic sites; and
- be placed in areas prohibited by the local governments from having outdoor advertisements.

In addition to the Advertising Law, the SAIC promulgated the Outdoor Advertising Registration Administrative Regulations on May 22, 2006, which governs the outdoor advertising industry in China.

Outdoor advertisements in China must be registered with the local SAIC before dissemination. The advertising distributors are required to submit a registration application form and other supporting documents for registration. After review and examination, if an application complies with the requirements, the local SAIC will issue an Outdoor Advertising Registration Certificate for such advertisement. The content, format, specification, dissemination period, and location of the outdoor advertisement must be submitted for filing with the local SAIC.

The placement and installation of LED billboards are subject to municipal zoning requirements and governmental approvals, including application for an outdoor advertising registration certificate for each LED billboard, which may be subject to a term of use that is governed by local outdoor advertising regulations and varies accordingly. We use Beijing and Shanghai, which are our major operation locations, as examples. In Beijing, the maximum length of such term of use for a LED billboard is of four years while it is of six years in Shanghai. If the existing LED billboards placed by our LED location provider or us are required to be removed, the attractiveness of this portion of our advertising network will be diminished. Moreover, failure by an owner of LED billboards to maintain outdoor advertising registration certificates would result in the inability to lease or market such space for the placement of advertisements.

The local authorities may issue temporary restriction or prohibitions on outdoor advertising at the regional level in light of public events of large scale held locally. The Shanghai local government issued certain local regulations that prohibit advertising on ships (other than cargo ships and ferries) on the Huangpu River and Suzhou Creek area and more restrictive rules for applying for outdoor advertising for the period of preparation and hosting of World EXPO 2010, which ended on October 31, 2010.

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### ***Print Advertising***

Following our acquisition of Framedia on January 1, 2006, we also operate a network of advertising poster frames placed primarily in the elevators and public areas of residential complexes. The advertisements shown on our poster frame network are defined as “normal print advertisements” under the Print Advertisements Administrative Regulations promulgated by the SAIC on January 13, 2000, as amended on November 30, 2004, or the Print Advertisements Regulations. Under these regulations, print advertisements must not be placed in areas prohibited by laws or regulations from posting print advertisements.

### **Regulation of Foreign Exchange in Certain Onshore and Offshore Transactions**

In January and April 2005, the PRC State Administration of Foreign Exchange, or SAFE, issued two rules that require PRC residents to register with and receive approvals from SAFE in connection with their offshore investment activities. SAFE has announced that the purpose of these regulations is to achieve the proper balance of foreign exchange and the standardization of the cross-border flow of funds.

On October 21, 2005, SAFE issued the Notice on Issues Relating to the Administration of Foreign Exchange in Fund-raising and Reverse Investment Activities of Domestic Residents Conducted via Offshore Special Purpose Companies, or Notice 75, which became effective as of November 1, 2005. Notice 75 replaced the two rules issued by SAFE in January and April 2005 mentioned above.

According to Notice 75 and other relevant SAFE regulations:

- prior to establishing or assuming control of an offshore company for the purpose of financing that offshore company with assets or equity interests in an onshore enterprise in the PRC, each PRC resident, whether a natural or legal person, must complete the overseas investment foreign exchange registration procedures with the relevant local SAFE branch;
- an amendment to the registration with the local SAFE branch is required to be filed by any PRC resident that directly or indirectly holds interests in that offshore company upon either (1) the injection of equity interests or assets of an onshore enterprise to the offshore company, or (2) the completion of any overseas fund raising by such offshore company;
- an amendment to the registration with the local SAFE branch is also required to be filed by such PRC resident when there is any material change involving a change in the capital of the offshore company, such as (1) an increase or decrease in its capital, (2) a transfer or swap of shares, (3) a merger or division, (4) a long term equity or debt investment, or (5) the creation of any security interests over the relevant assets located in China; and
- a PRC enterprise indirectly invested by such PRC resident through the offshore company is required to disclose to the local SAFE branch the ultimate ownership in it by such PRC resident when applying for or updating its foreign exchange registration, and cooperate with and supervise the PRC resident to complete the registration with SAFE in accordance with Notice 75.

Moreover, Notice 75 applies retroactively. As a result, PRC residents who have established or acquired control of offshore companies that have made onshore investments in the PRC in the past are required to complete the relevant overseas investment foreign exchange registration procedures by March 31, 2006. Under the relevant rules, failure to comply with the registration procedures set forth in Notice 75 may result in restrictions being imposed on the foreign exchange activities of the relevant onshore company, including the payment of dividends and other distributions to its offshore parent or affiliate and the capital inflow from the offshore entity, and may also subject relevant PRC residents and PRC enterprises to penalties under PRC foreign exchange administration regulations.

As a Cayman Islands company, and therefore a foreign entity, if we purchase the assets or equity interest of a company owned by PRC residents in exchange for our equity interests, such PRC residents will be subject to the

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registration procedures described in Notice 75. Moreover, PRC residents who are beneficial holders of our shares are required to register with SAFE in connection with their investment in us.

These regulations may affect our business operations or strategies. For example, our present or future PRC subsidiaries' ability to conduct foreign exchange activities, such as remittance of dividends and foreign-currency-denominated borrowings, may be subject to compliance with such SAFE registration requirements by relevant PRC residents, over whom we have no control. In addition, we cannot assure you that any such PRC residents will be able to complete the necessary approval and registration procedures required by the SAFE regulations. We require all the shareholders in Focus Media Holding who are PRC residents or have PRC residents as its beneficial owners to comply with any SAFE registration requirements, but we have no control over either our beneficial owners or the outcome of such registration procedures. Such uncertainties may restrict our ability to implement our acquisition strategy and adversely affect our business and prospects.

### **Regulation of Equity Pledge**

The PRC Property Rights Law that was promulgated on March 16, 2007 and became effective on October 1, 2007 requires that registration with the local SAIC authorities is necessary to create a security interest on an equity interest in a PRC company, which means that before the equity pledge is duly registered with the local SAIC authorities, the equity pledge is unenforceable even though the relevant equity pledge agreement is still binding.

Almost all our existing equity pledge agreements between certain of our operating subsidiaries and certain of our operating affiliates and their shareholders were signed before the PRC Property Rights Law took effect. The relevant PRC operating affiliates registered the equity pledges on their register of shareholders according to then applicable law. The Company attempted to register the relevant equity pledges after the PRC Property Rights Law became effective and we have successfully registered the equity pledge in connection with Focus Media Advertisement, one of our major PRC operating affiliates, which owns all other PRC operating affiliates that hold the advertising operating licenses connected with our operating businesses in December 2010 and certain other PRC operating affiliates with the local SAIC. However, the implementation rules were not promulgated until late 2008 and in some cities late 2009, and the practices taken by the local SAIC authorities vary from city to city. Thus, we are still in the process of applying for registration of other relevant equity pledges and there is no assurance that we can have these equity pledges registered on time or at all. Considering that we have not registered some of these existing equity pledges, and may fail to register future equity pledges, with the local SAIC, any equity pledge created under these equity pledge agreements may be considered unenforceable. See "Risk Factors—Risks Relating to Compliance with PRC Law— We use contractual arrangements with our PRC operating affiliates and their shareholders for a significant portion of our China operations, and uncertainties in the PRC legal system could limit our ability to enforce these contractual arrangements and thus our ability to conduct our business."

### **C. Organizational Structure**

Our predecessor company, Shanghai Aiqi Advertisement Co., Ltd., or Aiqi Advertisement, was established by immediate family members of Jason Nanchun Jiang in September 1997 and operated as an advertising agency. In May 2003, Aiqi Advertisement discontinued its advertising agency business, was renamed Shanghai Focus Media Advertisement Co., Ltd., commenced operation of our out-of-home television advertising network in China and reorganized its shareholdings. At the same time, we entered into arrangements with Focus Media Advertisement that resulted in the consolidation of Focus Media Advertisement. Following this reorganization Jason Nanchun Jiang continued to hold a controlling interest in Focus Media Advertisement.

In conjunction with the change in our business model in May 2003 and to facilitate foreign investment in our company, we established our offshore holding company, Focus Media Holding Limited as a company registered in the British Virgin Islands in April 2003. In April 2005, we completed the process of changing Focus Media Holding Limited's corporate domicile to the Cayman Islands and we are now a Cayman Islands company. On July 13, 2005, our ADSs were listed for quotation on the Nasdaq Global Market.

In January 2006, we acquired Framedia and E-Times, which operate networks of advertising poster frames placed primarily in elevators and public areas of residential complexes in China. In February 2006, we acquired Target Media. Target Media operated an out-of-home advertising network using flat-panel displays placed in

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elevator lobbies and other public areas in commercial buildings, hospitals, hotels, banks, residential buildings, convenience stores and other locations in cities in China. Following the acquisition of Target Media, we combined Target Media's network into our existing commercial location and in-store networks. Other than holding their existing contracts, the former Target Media entities no longer conduct any operations, and the combined network is operated through our existing corporate entities. In March 2006, we acquired Focus Media Wireless, which operates a WAP-based advertising delivery platform on the mobile telecommunications networks of China Mobile and China Unicom. In 2008, we terminated our mobile handset advertising business and it is accounted for as a discontinued operation. In the first quarter of 2007, we acquired Homesky Investment Ltd., which operates a traditional billboard network through its PRC affiliates. In March 2007, we acquired Allyes, which operates an Internet advertising marketing services and technology business. We made a number of additional smaller Internet advertising companies in 2007 and 2008, and subsequently reorganized all such acquired entities to be included within the operations of Allyes, although certain such acquired Internet advertising businesses were disposed of or discontinued in 2009. In June 2007, we acquired Hua Kuang Advertising Company Limited and its PRC subsidiary, which operates a traditional billboard network through its PRC affiliates. In January 2008, we acquired CGEN, which operates digital advertising displays in large chain stores in China. In December 2008, we announced disposal of certain subsidiaries acquired from CGEN. In January 2010, certain Allyes employees and management and directors and certain members of our management and directors entered into a definitive agreement with us and Allyes in January 2010 to buy-out an aggregate 38% interest in Allyes from us, including certain offshore and onshore interests. In July 2010, we sold our entire remaining 62% ownership interest in Allyes.

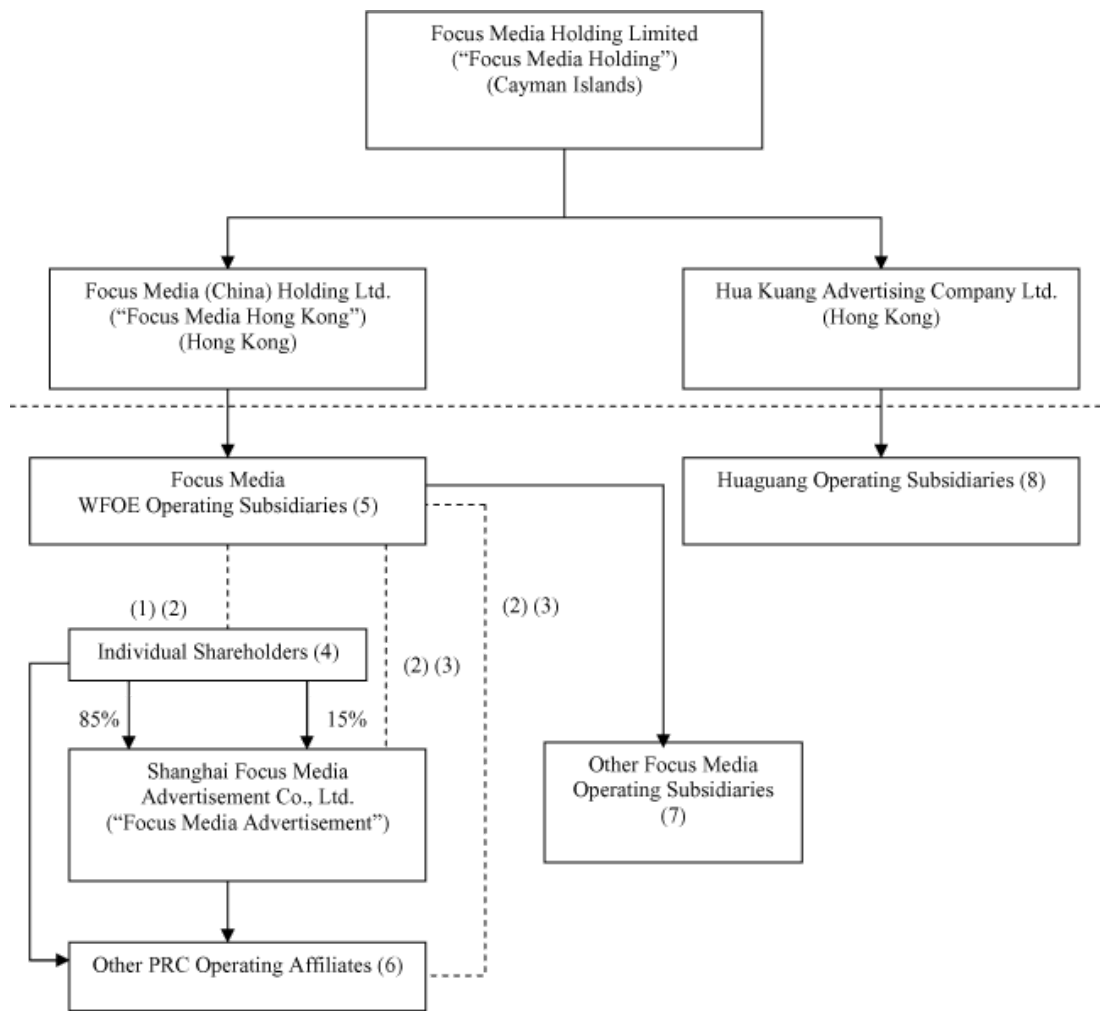
### **Our Corporate Structure and Contractual Arrangements**

Most of our major board decisions, such as those relating to strategic planning, significant investments, raising fund and all matters related to capital market are made outside of the PRC, while substantially all of our business operations are conducted in China as follows:

- with regard to the operation of our commercial location and in-store network, through (i) our indirect operating subsidiaries such as Focus Media Technology (Shanghai) Co., Ltd., or Focus Media Technology, Focus Media (China) Information Technology Co., Ltd., or FM China Information, for non-advertising ancillary business operation, (ii) Shanghai Focus Media Advertisement Co., Ltd., or Focus Media Advertisement, one of our operating affiliates, and (iii) certain subsidiaries of Focus Media Advertisement and Focus Media Digital Information Technology (Shanghai) Co., Ltd., or Focus Media Digital, for advertising business operation;
- with regard to the operation of our poster frame network, through (i) our indirect operating subsidiaries such as Shanghai On-Target Advertisement Co., Ltd., or Shanghai On-Target, and certain other subsidiaries of Focus Media Digital and (ii) certain subsidiaries of Focus Media Advertisement;
- with regard to our outdoor traditional billboard network, through our indirect subsidiaries 100% owned, directly or indirectly by Hua Kuang Advertising Company Limited; and
- with regard to our movie theater advertising network, through Beijing Yangshi Sanwei Advertisement Co., Ltd. and Shanghai Zhenhao Advertising Co., Ltd., two subsidiaries with majority ownership held by Focus Media Advertisement.

Certain of our PRC operating subsidiaries and certain of our affiliated entities and their shareholders have entered into contractual arrangements substantially similar to those control agreements entered into among Focus Media Technology, Focus Media Digital, Focus Media Advertisement and its shareholders. See "Item 7.B Major Shareholders and Related Party Transaction — Related Party Transactions — Agreements among Us, Our PRC Operating Subsidiaries, Our PRC Operating Affiliates and Their Shareholders".

The following chart shows our organizational structure of our material subsidiaries and affiliates as of December 31, 2010.



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- 
- (1) Loans used to capitalize our PRC operating companies and to facilitate our control over them.
  - (2) Agreements that give us effective control over our PRC operating affiliates.
  - (3) Agreements that ensure a substantial portion of the economic benefits of our operations in the PRC are maintained by our PRC operating subsidiaries, as described in “Related Party Transactions”.
  - (4) Focus Media Advertisement is 85% owned by Jason Nanchun Jiang and 15% owned by Jimmy Yu.
  - (5) The Focus Media directly or indirectly WFOE operating subsidiaries include the WFOE operating subsidiaries (i) relating to our out-of-home television network operations include but not limited to Focus Media Technology, Focus Media Digital , FM China Technology and Focus Media Defeng Advertisement, and (ii) relating to our poster frame network operations.
  - (6) These consist of subsidiaries of Focus Media Advertisement, which holds between 50% and 100% of the subsidiaries, with the remaining minority interest held by individual or entity designated by us or unrelated third parties, which operate our out-of-home television network, poster frame network, and movie theatre advertising business.
  - (7) Other Focus Media operating subsidiaries include those directly or indirectly owned by Focus Media Digital, which operate a portion of our-out-of-home television network and poster frame network.
  - (8) Hua Kuang operating subsidiaries include those directly or indirectly owned by Hua Kuang Advertising Company Ltd.

In connection with its entry into the World Trade Organization, China is required to relax restrictions on foreign investment in the advertising industries in China. Accordingly, PRC regulations stipulate that starting from December 10, 2005, foreign investors are allowed to directly own 100% of PRC companies operating an advertising business if the foreign entity has at least three years of direct operations in the advertising business outside of China or to directly own less than 100% if the foreign entity has at least two years of direct operations in the advertising business outside of China. Generally we do not currently directly operate an advertising business outside of China and our non-PRC subsidiaries cannot qualify under PRC regulations for direct investment in advertising industry. It may be burdensome or not cost effective for us to reorganize in accordance with the criteria for direct ownership. We intend to explore the commercial feasibility of changing our current structure, including possibly direct ownership of our PRC operating affiliates, taking into consideration relevant cost, market, competitive and other factors. In the event we take such steps, we cannot assure you that any restructuring we may undertake to facilitate direct ownership will be successful.

Our advertising business is currently provided partly through contractual arrangements with our consolidated affiliated entities in China, including Focus Media Advertisement, certain of its subsidiaries and their respective shareholders designated by us. A portion of the operations of our commercial location network and poster frame network are conducted by our indirect PRC subsidiaries owned by our WFOE operating subsidiaries. Accordingly, our advertising services are currently conducted by our indirect PRC operating subsidiaries and our PRC operating affiliates which are currently owned or controlled by (i) individuals designated by us, or (ii) one or more PRC entity or entities owned by our other consolidated affiliates or (iii) a combination of individuals designated by us and entities owned by our other consolidated affiliates. Our PRC operating affiliates and certain of our indirect PRC operating subsidiaries hold the requisite licenses to provide advertising services in China.

While certain of our indirect PRC operating subsidiaries are eligible for the required licenses for providing advertising services in China and some of our indirect PRC operating subsidiaries have obtained such licenses, we use certain our PRC operating affiliates to operate a significant portion of our advertising business until we acquire them as our wholly-owned subsidiaries. Certain of our PRC operating subsidiaries have entered into contractual arrangements with their respective PRC operating affiliates and shareholders, pursuant to which:

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- we are able to exert effective control over our PRC operating affiliates;
- a substantial portion of the economic benefits of our PRC operating affiliates are maintained by us; and
- each of our PRC operating subsidiaries or their respective designees has an exclusive option to purchase all or part of the equity interests in our PRC affiliated entities or, in some cases, all or part of the assets of our PRC affiliated entities, in each case when and to the extent permitted by PRC law.

Each of our contractual arrangements with our PRC affiliated entities and their respective shareholders can only be amended with the approval of our audit committee or another independent body of our board of directors. See “Item 7.B Major Shareholders and Related Party Transactions—Related Party Transactions” for further information on our contractual arrangements with these parties.

In the opinion of Global Law Office, our PRC legal counsel:

- the respective ownership structures of our PRC operating subsidiaries and their respective PRC affiliates and subsidiaries are in compliance with existing PRC laws and regulations;
- the contractual arrangements among our PRC operating subsidiaries and their respective PRC affiliates, subsidiaries and PRC shareholders of their PRC affiliates, in each case governed by PRC law are valid, binding and enforceable, and will not result in any violation of PRC laws or regulations currently in effect, save that equity pledge created under equity pledge agreements is unenforceable before the equity pledge registration is duly completed with the local SAIC; and
- the PRC business operations of our PRC operating subsidiaries and their respective affiliates and subsidiaries as described in this annual report, are in compliance with existing PRC laws and regulations in all material respects.

We have been advised by our PRC legal counsel, however, that there are substantial uncertainties regarding the interpretation and application of current and future PRC laws and regulations. Accordingly, there can be no assurance that the PRC regulatory authorities, in particular the SAIC which regulates advertising companies, will not in the future take a view that is contrary to the above opinion of our PRC legal counsel. We have been further advised by our PRC counsel that if the PRC government finds that the agreements that establish the structure for operating our PRC advertising business do not comply with PRC government restrictions on foreign investment in advertising businesses, we could be subject to severe penalties. See “Item 3.D Key Information—Risk Factors — Risks Relating to Regulation of Our Business and to Our Structure — If the PRC government finds that the ownership structure of our operating subsidiaries or our operation affiliates, or the agreements that establish the structure for operating our China business do not comply with PRC governmental restrictions on foreign investment in the advertising industry, we could be subject to severe penalties”, “—If the PRC government finds that the ownership structure of our operation affiliates violates PRC laws as a result of the change in Jason Nanchun Jiang’s citizenship, we could be subject to severe penalties, and our ability to conduct our business may be affected in a material and adverse way”, and “—We use contractual arrangements with our PRC operating affiliates and their shareholders for a significant portion of our China operations, and uncertainties in the PRC legal system could limit our ability to enforce these contractual arrangements and thus our ability to conduct our business”.

We periodically reevaluate the degree to which we will exert more direct control over our advertising operations and intend to rely less on contractual arrangements in the future. The steps we may take to achieve a greater degree of direct control over our operations could include (i) continuing to increase the portion of our business operations conducted through our indirect PRC subsidiaries rather than through contractual arrangements with our affiliates, (ii) exercising the call option under the contractual arrangements our subsidiaries have entered into with the shareholders of our PRC operating affiliates or (iii) transferring the equity interests held by the individuals who are shareholders of our PRC operating affiliates to (A) a foreign entity that is qualified under PRC regulations for 100% direct ownership an advertising business or (B) one of our indirect PRC subsidiaries.

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### **Subsidiaries of Focus Media Holding Limited**

An exhibit containing a list of our direct subsidiaries has been filed with this annual report.

### **D. Property, Plants and Equipment**

Please refer to “—B. Business Overview—Facilities” for a discussion of our property, plants and equipment.

### **ITEM 4A. UNRESOLVED STAFF COMMENTS**

Not applicable.

### **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. Our consolidated financial statements have been prepared in accordance with U.S. GAAP. In addition, our consolidated financial statements and the financial data included in this annual report reflect our reorganization and have been prepared as if our current corporate structure had been in place throughout the relevant periods. The following discussion and analysis contain forward-looking statements that involve risks and uncertainties. Actual results could differ materially from those projected in the forward-looking statements. For additional information regarding these risks and uncertainties, see “Item 3.D Key Information — Risk Factors”.

#### **Overview**

We are China’s leading multi-platform digital media company, operate the largest LCD display advertising network, in-store advertising network and poster frame advertising network, as well as movie theatre and traditional outdoor billboards advertising network in China.

We have executed a number of strategic and operational reorganizations during the three years ended December 31, 2010, as described below:

- In March 2006, we acquired Dotad Media Holdings, which operates a mobile-phone advertising service in China through China Mobile and China Unicom’s mobile phone networks. Following the acquisition of Dotad Media Holdings, we renamed the acquired company Focus Media Wireless Co., Ltd., which is also referred to as Focus Media Wireless throughout this annual report. After this acquisition, we acquired ten entities providing wireless advertising service in 2007. The business model of these wireless advertising services had been based on sending both solicited and unsolicited advertisements via short messaging service, or SMS, to mobile phone users. In March 2008, there was extensive negative media coverage on this form of advertising, and shortly thereafter, the Ministry of Information Industry, or MII, the national regulating authority of the telecom industry, ordered all local telecom regulators and telecom operators at all levels to strengthen regulations over SMS advertisements, in particular so-called “spam” or unsolicited advertisements and messages. As a result, several local telecom regulators and operators adopted policies restricting short message advertising activities by limiting the number of such advertisements or prohibiting companies from engaging in unsolicited short messaging advertising activities. In light of this sudden adverse change in the legal, regulatory and publicity environment, in December 2008, we discontinued operations of our mobile handset advertising network, and sought to dispose of this business. The original owners of our mobile handset business were still our key competitors with respect to this business, and as such, there was a limited choice of potential purchasers. We negotiated with the original owners of the mobile handset business to terminate the purchase agreements and return each business to the original owners, which were more willing to accept the risks associated with the change in the legal, regulatory and publicity environment. In exchange, the original owners waived their right to future earn-out payments due to them under the purchase agreement or paid a purchase price that was significantly less than the price we paid to acquire the business before the change in the business environment.. This business has been accounted for as discontinued operations for all the periods presented in accordance with U.S. GAAP.
- On March 28, 2007, we acquired Allyes Information Technology Company Limited, and its consolidated subsidiaries and affiliates, the leading Internet advertising company in China. We also acquired ten other entities that provided Internet advertising service during 2007 and 2008. We believed that as a result of those acquisitions we would be in a better position to negotiate pricing with internet property owners and rebate rates with 4A agencies, while promoting Allyes Smart Trade’s advertising performance tracking platform and facilitating cross-sales between our other internet businesses and other business lines. However, the acquisition did not result in these synergies anticipated due to the expansion of the Chinese internet advertising market, which permitted international agencies determined to enter the market to reduce their reliance on local agencies. As such, rebate rates from 4A agencies did not increase by as much as we had originally expected. Furthermore, major internet property owners were reluctant to lower their inventory prices due to the strong demand for their inventories. For these reasons, Allyes and most of the internet businesses that we acquired have seen their gross margins and operating profits steadily decline from 2007 to 2010 and the number of days outstanding for account receivables increased to a level that was inconsistent with our other lines of business. Since our internet advertising business, as a whole had been an underperforming unit, we decided to refocus our growth strategy on the organic growth of our core businesses, namely advertising through LCD display poster frame, in-store and movie theater networks. We first disposed of the six acquired internet subsidiaries because the earn-out periods for each of these acquisitions were still in effect. However, due to significant accrued and potential contingent payments of those subsidiaries we could not locate a buyer willing to purchase these subsidiaries. Therefore, we negotiated with the respective original owners of these subsidiaries, who were the incumbent management, to cancel the accrued and potential contingent payments owed to them pursuant to the terms of the respective purchase agreements in exchange for returning the business to them. The operations of these disposed subsidiaries are accounted for as discontinued operations for all the periods presented in accordance with U.S. GAAP.
- On January 2, 2008, we completed the acquisition of CGEN Digital Media Company Limited, or CGEN. In accordance with the share purchase agreement entered into on December 10, 2007, we made a cash payment of US\$168.4 million to the former CGEN shareholders and the former CGEN shareholders delivered 100% of the equity interest in CGEN to us. One of the primary reasons for the acquisition of CGEN was to consolidate the in-store advertising market with the hope of reducing rental fees paid to chain-store owners. However, this acquisition did not result in chain-stores lowering their rental fees as expected. Instead, the chain-stores expected we would maintain the multi-year rental fee agreements entered into by CGEN prior to the acquisition and expected we would pay for CGEN’s overdue rental fees, which amounted to RMB110 million immediately prior to the disposition. Given these circumstances, we decided to dispose of one of CGEN’s PRC operating affiliates, CGEN Media Advertising Co., Ltd., or CGEN Media, to avoid being required to pay CGEN Media’s overdue rental fees and to possibly influence the chain-stores to renegotiate rental agreements on more favorable terms. Based on the above considerations, we terminated the share purchase agreement and sold CGEN Media,

including all accounts receivables and account payables, to a third party, who is neither related to us nor the original owners, for zero consideration. After the disposal of CGEN Media in December 2008, the Company negotiated new rental agreements with two primary chain-stores in China in April 2009 and April 2010, respectively, thereby reducing rental fee levels by 73% and 81% respectively. Despite the disposition of CGEN Media, we retained CGEN's in-store monitors for future similar use. We also began to negotiate leases with the existing location providers of CGEN in order to conduct similar advertising business. We concluded that these constituted migration of revenue and continuing involvement. As such, the result of CGEN's operations was accounted for as part of results from continuing operations in the year ended December 31, 2008.

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- On December 22, 2008, we entered into an asset purchase agreement with SINA Corporation, pursuant to which we agreed to sell substantially all of the assets of our LCD display network, poster frame network and in-store network. The assets and liabilities were presented as held for sale as of December 31, 2008. However, the transaction was terminated on September 30, 2009 jointly by both parties as SINA's application to MOFCOM for review under the PRC Anti-Monopoly Law was not accepted for review by MOFCOM and the parties would not be able to pursue and complete that process within the time period for consummation set forth in the agreement. Accordingly, we continue to own and operate the assets that were the subject of the original purchase and sale agreement. The assets and liabilities have been reclassified in 2009 in the balance sheet as held for use and the results have been reclassified from discontinued operations to continuing operations for all periods presented.
- In October 2007, we acquired Zong Heng Pin Yu, which owned an advertising license for use on the Huangpu River in Shanghai, from an unrelated third party. After the acquisition, we purchased a boat as the advertising platform on the Huangpu River and commenced commercial operations in January 2008. On January 4, 2009, the Shanghai Municipality Government amended its regulations governing outdoor advertisements to prohibit non-passenger and non-cargo boats from engaging in advertising activities on all rivers within Shanghai until December 31, 2010. We believed there was a high likelihood that the regulation would remain effective indefinitely. Since the license we obtained through the acquisition of Zong Heng Pin Yu could only be utilized for advertising on the Huangpu River and it was not commercially viable to use the boat for any other purpose, as, following renovations and outfitting of the boat for non-passenger and non-cargo services and an eight-month solicitation effort to use the boat for advertising purposes in other markets, we were unable to find a suitable alternative market where the boat could be put to active use. As a result, we fully impaired the long-lived assets associated with our boat-based advertising platform in 2009, recording an aggregate impairment loss of \$36.9 million for the year ended December 31, 2009.
- During 2009, we discontinued operations of certain poor performing subsidiaries in our Internet advertising business.
- In January 2010, certain Allyes employees and management and directors and certain members of our management and directors entered into a definitive agreement with us and Allyes to purchase an aggregate 38% interest in Allyes from us. We entered into this arrangement to incentivize the Allyes management in order to try to maximize the operations and value of Allyes. Pursuant to the terms of the agreements, the purchasing Allyes and Group management members paid an aggregate \$13.3 million for a 38% interest of Allyes. The Group performed a valuation of Allyes as of the closing date of the transaction and determined that the price paid to acquire the interest approximated fair value. The transaction was approved by all independent directors on the board. This transaction was part of initiatives we are taking to incentivize management to enhance the future business model of Allyes and thereby to seek long term sustainable growth for the Group and investors.
- On July 30, 2010, we entered into a definitive share purchase agreement with Asteroid Media Holdings Limited, a wholly-owned investment vehicle of Silver Lake Management, L.L.C., or Silver Lake, pursuant to which we sold to Silver Lake our entire remaining 62% ownership interest in our former Internet business, Allyes Online Media Holdings Limited and its consolidated subsidiaries and affiliates. Upon the closing of the transaction on August 3, 2010, Silver Lake paid us US\$124 million, in exchange for the remaining equity ownership of Allyes held by Focus Media. Simultaneous with the signing of the agreement, certain other shareholders of Allyes also sold their interest in Allyes to Silver Lake, so that, following the series of transactions, Silver Lake owns a controlling stake in Allyes. We no longer hold any ownership interest in Allyes nor conduct any Internet advertising operations. We sold our remaining interest in Allyes to Silver Lake to maximize value for our shareholders as we believe that the interests of our business were best served by focusing on our core out-of-home advertising network and selling the Allyes business at a price that we believe provided excellent value to our company and our shareholders.
- On March 7, 2011, as part of our continued effort to divest non-core business, we entered into a definitive equity transfer agreement, as amended on May 30, 2011, with GBL III Limited, an entity controlled by Goldman Sachs and entities (the "Management Entities") controlled by certain employees, directors and management members of us and Shanghai Hua Guang Chuanzhi OOH Ltd. ("OOH"), our outdoor media subsidiary, in which Goldman Sachs will acquire a 30% equity interest in OOH from us for US\$21 million, and the Management Entities will purchase an aggregate 19% equity interest in OOH from us for US\$13.3 million. GBL III Limited will be entitled to nominate one designee to OOH's board of directors and will extend a loan to the Management Entities under certain loan documents to be entered into between GBL III Limited and the Management Entities. Upon completion of these transactions, we will hold a 51% indirect equity interest in OOH. We believe this partial stake disposal allows us to recoup a majority of the investments in OOH while retaining upside potential in the business.

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We determine whether a subsidiary is underperforming based on certain metrics, including the subsidiary's (i) current and potential gross profit, (ii) current and potential operating profit and (iii) current and potential working capital requirement. The discontinued operations of these subsidiaries are classified as discontinued operations for all periods presented.

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

- 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 increase sales of advertising time slots and extend the duration of our advertising cycle on our LCD display networks, in-store networks and movie theater network;
- Our ability to expand our client base through promotion of our services and cross-selling;
- Our ability to identify and create new advertising channels by establishing separate advertising networks that enable advertisers to target a diverse range of consumer groups with specific demographic profiles;
- Our ability to successfully operate and market our new LCD display network;
- Our ability to increase sales of advertising space and increase the length of advertising campaigns on our traditional billboard network; and
- Our ability to integrate the companies we acquired in the previous years

Because our primary source of revenue is our advertising service revenue, we focus on factors that directly affect our advertising service revenue such as the number of advertising time slots that we have available for sale and the price we charge for our advertising time slots after taking into account any discounts.

As we continue to expand our network, we expect to face a number of challenges. We have expanded our LCD display network, in-store network and poster frame network rapidly, and we, as well as our competitors, have occupied many of the most desirable locations in China's major cities. For the traditional billboard advertising network, we need to adapt to the operation of a more traditional advertising medium that is competing with numerous other service providers as well as with numerous other advertising media. For the movie theater portion of our advertising network, we face the challenge of continuing to expand our network while attracting interest from advertisers and acceptance from consumers of this relatively new advertising model. In order to continue expanding our network in a manner that is attractive to potential advertising clients, we may continue to enter into new advertising media platforms and to establish additional networks that provide effective channels for advertisers.

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**Revenues**

In 2008, 2009 and 2010, we had total revenues of \$529.2 million, \$397.2 million and \$516.3 million, respectively. In 2008, 2009 and 2010, our advertising service revenue accounted for 99.3%, 99.9% and 99.9% of our total revenues, respectively. The following table sets forth a breakdown of our total revenues for the periods indicated:

	For the year ended December 31,					
	2008		2009		2010	
	\$	% of total revenues	\$	% of total revenues	\$	% of total revenues
(in thousands of U.S. dollars, except percentages)						
<b>Net revenues:</b>						
LCD display network	240,918	45.5%	208,499	52.5%	297,403	57.6%
In-store network	60,719	11.5%	30,346	7.6%	37,777	7.3%
Poster frame network	146,751	27.7%	98,962	24.9%	121,893	23.6%
Movie theater and traditional outdoor billboards	77,178	14.6%	59,057	14.9%	59,003	11.4%
Advertising service revenue	525,566	99.3%	396,864	99.9%	516,076	99.9%
Other revenue	3,622	0.7%	300	0.1%	239	0.1%
<b>Total revenues</b>	<u>529,188</u>	<u>100.0%</u>	<u>397,164</u>	<u>100.0%</u>	<u>516,315</u>	<u>100.0%</u>

- (1) Advertising service revenue is presented net of business tax. Business tax on advertising service revenue from our LCD display network amounted to \$24.7 million, \$20.6 million and \$31.0 million in 2008, 2009 and 2010 respectively. Business tax on advertising service revenue from our in-store network amounted to \$6.3 million, \$3.2 million and \$4.0 million for 2008, 2009 and 2010, respectively. Business tax on advertising service revenue from our poster frame network amounted to \$13.9 million, \$9.6 million and \$12.2 million, for 2008, 2009 and 2010, respectively. Business tax on advertising service revenue from our movie theater and traditional outdoor billboards amounted to \$2.8 million, \$1.5 million and \$2.8 million for 2008, 2009 and 2010, respectively.

Business tax includes aggregating business tax and surtax of 5.55% and cultural industries tax ranging from 0% to 4.0% of our gross advertising service revenue. Commencing from January 1, 2011, the maximum cultural industries tax levied was reduced from 4% to 3%.

We also break down our total revenues into related-party and unrelated-party sources. The following table presents a more detailed breakdown of our gross revenues and its component parts:

	For the year ended December 31,					
	2008		2009		2010	
	\$	% of total revenues	\$	% of total revenues	\$	% of total revenues
(in thousands of U.S. dollars, except percentages)						
<b>Gross Revenue:</b>						
LCD display network						
— Unrelated parties	264,182	49.9%	228,541	57.6%	326,834	63.3%
— Related parties	1,403	0.3%	582	0.1%	1,519	0.3%
<b>Total LCD display network</b>	<u>265,585</u>	<u>50.2%</u>	<u>229,123</u>	<u>57.7%</u>	<u>328,353</u>	<u>63.6%</u>
In-store network						
— Unrelated parties	67,038	12.7%	33,538	8.4%	41,740	8.1%
— Related parties	—	0.0%	—	0.0%	—	0.0%
<b>Total in-store network</b>	<u>67,038</u>	<u>12.7%</u>	<u>33,538</u>	<u>8.4%</u>	<u>41,740</u>	<u>8.1%</u>
Poster frame network						
— Unrelated parties	160,526	30.3%	108,379	27.3%	133,792	25.9%
— Related parties	88	0.1%	147	0.0%	294	0.1%
<b>Total Poster frame network</b>	<u>160,614</u>	<u>30.4%</u>	<u>108,526</u>	<u>27.3%</u>	<u>134,086</u>	<u>26.0%</u>
Movie theater and traditional outdoor billboards						
— Unrelated parties	78,250	14.8%	60,132	15.2%	61,476	11.9%

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	For the year ended December 31,					
	2008		2009		2010	
	(in thousands of U.S. dollars, except percentages)					
— Related parties	1,773	0.3%	412	0.1%	302	0.1%
Total Movie theater and traditional outdoor billboards	80,023	15.1%	60,544	15.3%	61,778	12.0%
Gross Advertising Services Revenue:	<u>573,260</u>	<u>108.3%</u>	<u>431,731</u>	<u>108.7%</u>	<u>565,957</u>	<u>109.6%</u>
Less: Sales taxes:						
LCD display network	24,668	4.7%	20,624	5.2%	30,950	6.0%
In-store network	6,319	1.2%	3,192	0.8%	3,963	0.8%
Poster frame network	13,863	2.6%	9,564	2.4%	12,193	2.4%
Movie theater and traditional outdoor billboards	2,844	0.5%	1,487	0.4%	2,775	0.5%
Total sales taxes	47,694	9.0%	34,867	8.8%	49,881	9.7%
Net Advertising Service Revenue	<u>525,566</u>	<u>99.3%</u>	<u>396,864</u>	<u>99.9%</u>	<u>516,076</u>	<u>99.9%</u>
Add:						
Other revenue:	3,622	0.7%	300	0.1%	239	0.1%
Net revenues:	<u>529,188</u>	<u>100.0%</u>	<u>397,164</u>	<u>100.0%</u>	<u>516,315</u>	<u>100.0%</u>

**Advertising Service Revenue**

*Sources of Revenues.* We derive most of our total revenues from the sale of advertising time slots on our LCD display network, in-store network, movie theatre and traditional outdoor billboards, and frame space on poster frame network to unrelated third parties and to some of our related parties. Our advertising services to related parties were provided in the ordinary course of business on the same terms as those provided to our unrelated advertising clients on an arm's-length basis.

Our advertising service revenue is recorded net of any sales discounts and agency commissions from our standard advertising rate cards 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 slots available in a particular city's advertising cycle, and represent the difference between our standard rate card and the amount we charge our advertising clients. Our advertising clients include advertisers that directly engage in advertisement placements with us and advertising agencies retained by some advertisers to place advertisements on the advertiser's behalf. We expect that our advertising service revenue will continue to be the primary source, and constitute the substantial majority of, our revenues for the foreseeable future.

Our advertising service revenue reflects a deduction for business taxes and related surcharges. Our advertising service revenues are subject to a business tax and surtax totaling 5.55% plus a cultural industries tax ranging from 0% to 4.0% on revenues earned from their advertising services provided in China. We deduct these amounts from our advertising service revenues to arrive at our total revenues attributable to advertising services.

**Factors that Affect Our Advertising Service Revenue.**

**LCD display Network**

Prices for advertising services on our LCD display advertising networks vary significantly from city to city as income levels, standards of living and general economic conditions vary significantly from region to region in China, which in turn affect the advertising rates we are able to charge for time slots. Our advertising service revenue derived from our LCD display network is directly affected by the average price we charge for the advertising package provided to our customers, after taking into account any discount offered and the number of flat-panel displays in our network and the desirability, quality and pedestrian traffic of the locations where we are able to lease space to install our flat-panel displays.

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### **In-store Network**

Our advertising service revenue derived from our in-store network is directly affected by the number of flat-panel displays in our network, the number of hypermarkets, supermarkets and convenience stores in the network, and the average price we charge for the advertising package provided to our customers after taking into account any discount offered, which vary significantly from city to city as income levels, standards of living and general economic conditions vary significantly from region to region in China.

### **Poster Frame Network**

Our advertising service revenue derived from our poster frame network is directly affected by:

- the number of frames in our poster frame network. We sell frame space on our poster frame network on a per frame basis. Increasing the number of residential and other locations on our poster frame network allows us to increase the number of frames on our network, thereby increasing the available frame space for sale to advertisers;
- the average price we charge for frame space on a per frame basis, after taking into account any discount offered, which varies significantly from city to city as income levels, standards of living and general economic conditions vary significantly from region to region in China; and
- our ability to effectively compete with smaller competitors in the sector. During the past few quarters, we have been facing intense competitions from those competitors in two key areas: securing desirable locations for our poster frames and pricing

### **Movie Theatre Network**

Our advertising revenue derived from our movie theatre advertising network is directly affected by the number of movie theaters in which we have leased screen time, our expansion into additional theaters, and the length of the leased screen time, which is currently three minutes per screening per theater prior to movie screenings at the movie theater.

### **Traditional Outdoor Billboard Networks**

Our advertising revenue derived from our traditional outdoor billboard networks is directly affected by the number of outdoor billboards which we have leased and our expansion into additional locations.

**Seasonality.** Our advertising service revenue is subject to key factors that affect the level of advertising spending in China generally. In addition to fluctuations in advertising spending relating to general economic and market conditions, advertising spending is also subject to fluctuations based on the seasonality of consumer spending. In general, a disproportionately larger amount of advertising spending is concentrated on product launches and promotional campaigns prior to the holiday season in December. In addition, advertising spending generally tends to decrease in China during January and February each year due to the Chinese Lunar New Year holiday as office buildings and other commercial venues in China tend to be closed during the holiday. We believe this effect will be less pronounced with regard to advertising spending on our in-store network, as we believe commercial activity in hypermarkets and supermarkets is stable or even enhanced during the period of Chinese Lunar New Year. We also experience a slight decrease in revenues during the hot summer months of July and August each year, when there is a relative slowdown in overall commercial activity in urban areas in China. Our past experience, although limited, indicates that our revenues would tend to be lower in the first quarter and higher in the fourth quarter of each year, assuming other factors were to remain constant, such as our advertising rates and the number of available time slots on our network.

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### **Revenue Recognition**

Advertising revenues are recognized when all four of the following criteria are met: (i) persuasive evidence of agreement exists; (ii) delivery of service has occurred; (iii) the price is both fixed and determinable; and (iv) collection of the resulting receivable is reasonably assured. We typically sign standard advertising contracts with our advertising clients, which require us to run the advertiser's advertisements on our network in specified cities for a specified period, typically from four to twelve weeks. We recognize advertising service revenue ratably over the performance period of the advertising contract, so long as collection of our fee remains probable.

We generally collect our advertising service fees by billing our advertising clients within 60 to 90 days after completion of the advertising contract and book these unbilled or unpaid amounts as accounts receivable until we receive payment or determine the account receivable to be uncollectible.

Our accounts receivable are general unsecured obligations of our advertising clients and we do not receive interest on unpaid amounts. We make specific reserves for accounts that we consider to be uncollectible. We also provide a general reserve for uncollectible accounts that we reassess on an annual basis. In 2008, 2009 and 2010, we made provision of \$15.8 million (aggregating the provisions for the disposal group for the SINA transaction and assets held for use), \$29.1 million and \$0.5 million, respectively, for accounts receivable that were outstanding for longer than six months. The significant reduction in bad debt provision in 2010 was primarily attributable to reversal of bad debt provisions we made for over-due account receivables incurred in 2008 and 2009 and strong collection of account receivables incurred in 2010 under favorable macro-economic conditions. We do not anticipate significant future reversal of bad debt provision to account receivables incurred in 2010 because macro-economic conditions are expected to be stable in near future. Therefore, we expect to see bad debt provision to increase in absolute dollar term in 2011 and years after.

### **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	
	\$	% of total revenues	\$	% of total revenues	\$	% of total revenues
<b>Total revenues</b>	\$ 529,188	100.0%	\$ 397,164	100.0%	\$ 516,315	100.0%
Cost of revenues:						
Net advertising service cost:						
LCD display network	78,728	14.9%	76,128	19.2%	67,374	13.0%
In-store network	61,834	11.7%	24,170	6.1%	23,432	4.5%
Poster frame network	59,815	11.3%	95,401	24.0%	84,487	16.4%
Movie theater and traditional outdoor billboards	56,944	10.8%	45,085	11.4%	46,258	9.0%
Advertising service cost	257,321	48.7%	240,784	60.7%	221,551	42.9%
Other cost	1,723	0.3%	291	0.0%	139	0.0%
Total cost of revenues	259,044	49.0%	241,074	60.7%	221,690	42.9%
Gross profit	\$ 270,144	51.0%	\$ 156,090	39.3%	\$ 294,625	57.1%

### **Advertising Service Costs**

Our cost of revenues related to the offering of our advertising services on our advertising network consists of location costs, flat-panel display depreciation costs and other cost items, including salaries for and travel expenses incurred by our network maintenance staff and costs for materials. In 2008, 2009 and 2010, our costs of revenue also include impairment charges of equipment amounting to \$18.6 million, \$40.3 million and nil, respectively, and impairment charges for acquired intangible assets amounting to nil, \$3.2 million and nil, respectively.

Location costs for our LCD display network, in-store network, poster frame network and movie theatre & traditional outdoor billboard networks consist of:

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- rental fees and one-time signing payments we pay to landlords, property managers and stores pursuant to the display placement agreements we enter into with them;
- commissions and public relations expenses we incur in connection with developing and maintaining relationships with landlords and property managers; and
- maintenance fees for keeping our displays in proper operating condition.

Generally, we capitalize the cost of our media displays and recognize depreciation costs 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 costs are the number of flat-panel displays in our network and the unit cost for those displays, as well as the remaining useful life of the displays. Beginning in 2006, our results of operations have been negatively affected by the amortization of intangible assets in relation to, among other things, material contracts and customer lists as a result of several acquisitions, particularly the acquisition of Framedia, Target Media and CGEN. The amortization of acquired intangible assets charged to cost of advertising services amounted to \$20.1 million, \$14.3 million and \$12.7 million for 2008, 2009 and 2010, respectively.

Our other cost of revenues consists of salary for and travel expenses incurred by our network maintenance staff and costs for materials and maintenance in connection with the upkeep of our advertising network. The primary factor affecting our other costs of revenues is the size of our network maintenance staff. As the size of our network increases, we expect our network maintenance staff, and associated costs, to increase in absolute terms, but to decrease as a percentage of total revenues.

*LCD display Network.* Location costs are the largest component of our cost of revenues for our commercial location network. The primary factors affecting the amount of our location costs include the number of display placement agreements we enter into and the rental fees we pay under those agreements. We expect these costs to decrease as a percentage of our advertising service revenue for our commercial location network in the future, as our advertising service revenue for our commercial location network is expected to increase faster than the additional cost we incur from entering into new display placement agreements and any increases we may experience in renewing existing display placement agreements. However, when our display placement agreements expire, we may be unable to renew these agreements on favorable terms and the rental fee portion of our location costs attributable to these existing locations could increase. As we continue to increase the size of our network and as we update and replace our existing displays with new technology, our depreciation costs in connection with our commercial location network are expected to increase.

*In-store Network.* The primary costs of revenues connected with our in-store network are location costs resulting from rental and maintenance fees and depreciation costs for our displays. We expect these costs to be lower as a percentage of the revenue in near future compared to 2010.

*Poster Frame Network.* The primary costs of revenues connected with our poster frame network are location costs resulting from rental fees. Depreciation costs for our frames and other costs for salary and maintenance fees also account for a significant portion of cost of revenues for our poster frame network. We expect these costs to increase in 2011 and years after because of expansion of the poster frame network and continuing competition from our competitors for desirable locations.

*Movie Theatre & Traditional Outdoor Billboard Networks.* The primary costs of revenue connected with movie theater advertising network and traditional outdoor billboard network are advertising time slot leasing costs charged by the movie operators and advertising space leasing costs charged by the billboard owners, respectively.

### ***Operating Expenses and Net Income***

Our operating expenses consist of general and administrative, selling and marketing expenses and amortization of acquired intangible assets. In 2008, 2009 and 2010, our operating expenses also included a goodwill impairment loss. The following table sets forth our operating expenses, divided into their major categories by amount and as a percentage of our total revenues for the periods indicated.

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	For the year ended December 31,					
	2008		2009		2010	
	\$	% of total revenues	\$	% of total revenues	\$	% of total revenues
	(in thousands of U.S. dollars, except percentages)					
<b>Gross profit</b>	\$ 270,144	51.0%	\$ 156,090	39.3%	\$ 294,625	57.1%
Operating expenses:						
General and administrative	79,162	15.0%	88,833	22.4%	\$ 79,760	15.5%
Selling and marketing	82,258	15.5%	79,787	20.1%	103,722	20.1%
Impairment loss	377,629	71.4%	63,646	16.4%	\$ 5,736	1.1%
Other operating (income) expenses	183,113	34.6%	13,111	2.9%	(14,144)	(2.7%)
<b>Total</b>	<b>722,162</b>	<b>136.5%</b>	<b>245,377</b>	<b>61.8%</b>	<b>175,074</b>	<b>33.9%</b>
<b>Income (loss) from operations</b>	<b>\$(452,018)</b>	<b>(85.5%)</b>	<b>\$(89,287)</b>	<b>(22.5%)</b>	<b>\$ 119,551</b>	<b>23.2%</b>

**General and Administrative.** General and administrative expenses primarily consist of salary and benefits for management and finance and administrative staff personnel, share-based compensation expenses, bad debt expenses, business tax mainly relating to tax planning charges paid by our affiliated PRC companies, office rental, maintenance and utilities expenses, depreciation of office equipment, other office expenses and professional services fees. General and administrative expenses accounted for 15.0%, 22.4% and 15.5% of our total revenues in 2008, 2009 and 2010, respectively.

**Selling and Marketing.** Our selling and marketing expenses primarily consist of salaries and benefits, including share-based compensation expense for our sales staff, marketing and promotional expenses, and other costs related to supporting our sales force. Selling and marketing expenses accounted for 15.5%, 20.1% and 20.1% of our total revenues in 2008, 2009 and 2010, respectively.

**Impairment Loss for goodwill.** We are required to complete a two-step goodwill impairment test. The first step compares the fair value of each reporting unit to its carrying amount, including goodwill. If the fair value of a reporting unit exceeds its carrying amount, goodwill is not considered to be impaired and the second step will not be required. If the carrying amount of a reporting unit exceeds its fair value, the second step compares the implied fair value of goodwill to the carrying value of a reporting unit's goodwill. The implied fair value of goodwill is determined in a manner similar to accounting for a business combination with the allocation of the assessed fair value determined in the first step to the assets and liabilities of the reporting unit. The excess of the fair value of the reporting unit over the amounts assigned to the assets and liabilities is the implied fair value of goodwill. This allocation process is only performed for purposes of evaluating goodwill impairment and does not result in an entry to adjust the value of any assets or liabilities. An impairment loss is recognized for any excess in the carrying value of goodwill over the implied fair value of goodwill. We performed an annual goodwill impairment test for each of our reporting units as of December 31, 2008, 2009 and 2010 or when a triggering event indicated that it was probable that the carrying amount of a reporting unit may have exceeded its fair value. As a result, we recorded a goodwill impairment loss of \$377.6 million, \$63.6 million and \$5.7 million for the year ended December 31, 2008, 2009 and 2010, respectively, which were mostly related to our poster frame network.

The timing of an impairment test may result in charges to our statements of operations in our current reporting period that could not have been reasonably foreseen in prior periods. Application of the goodwill impairment test requires judgment, including the identification of reporting units, assigning assets and liabilities to the reporting units, assigning goodwill to reporting units and estimating the fair value of each reporting unit. Estimates of fair value of each reporting unit are significantly affected by assumptions such as future revenue growth rates, gross margin percentages, operating margin percentages, effective tax rates, terminal growth rates, discount rate, working capital requirements and capital expenditures. Changes in these estimates and assumptions could materially affect the determination of fair value of each reporting unit which could trigger impairment.

**Long-lived asset Impairment.** We test long-lived assets for possible impairment if an event occurs or circumstances change that would more likely than not reduce the fair value of an asset group below its carrying amount. Asset recoverability is an area involving management judgment, requiring assessment as to whether the carrying value of assets can be supported by the undiscounted future cash flows. In calculating the future cash flows, certain assumptions are required to be made in respect of highly uncertain matters such as revenue growth rates, gross margin percentages, terminal growth rates and the economic life of the long-lived assets. As a result of

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impairment tests performed, we recognized impairment losses on long-lived assets of \$65.7 million and \$nil in 2009 and 2010, respectively.

**Share-based Compensation.** In 2008, options to purchase 26,529,625 ordinary shares were authorized and granted under 2007 Plan, of which 10,138,625 options were granted concurrently with the cancellation of 21,724,685 options granted during the period from October 3, 2007 to July 25, 2008 (“2008 Replacement”). This was accounted for as a modification with no incremental compensation cost as the fair value of the options immediately before modification was higher than the fair value of the modified options.

On September 22, 2009, as a result of performance evaluations, 1,776,300 of the 2008 Replacement options were cancelled and previously unrecognized compensation cost of \$2,587,993 was recognized on the cancellation date. In addition, 7,550,849 of the 2008 Replacement options, associated with 300 employees, were cancelled and replaced by an equivalent number of unvested restricted shares (“2009 Replacement”). This was accounted for as a modification with the incremental compensation cost of \$8,122,206, which was measured as the excess of the fair value of the restricted shares over the fair value of the cancelled options at the cancellation date. Further, restricted shares to obtain 28,935,131 ordinary shares were granted to employees in 2009. The restricted shares generally vest over a period of two to three years.

On December 28, 2010, restricted shares to obtain 15,000,000 ordinary shares were granted to employees, officers, consultants and directors. These restricted shares will vest over a period of three years.

Under the terms of each plan, options are generally granted at prices equal to the fair market value of the ordinary shares at the date of grant whereas restricted shares are granted without exercise price, expire 10 years from the date of grant and generally vest over two to four years with certain options vesting over one year. As of December 31, 2008, 2009 and 2010, 32,840,540, 15,642,620 and 11,962,045 options and nil, 36,448,980 and 38,957,925 restricted shares, respectively, were outstanding. The fair value of restricted shares was determined to be the market value of the ordinary shares on the date of grant whereas the fair value of options granted to employees was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

Options granted to employees:	2008	2009
Risk-free rate of return	1.59%-3.2%	0.87%
Weighted average expected option life	2.5 to 4 years	2.5 years
Volatility rate	53%-68.88%	88.32%
Dividend yield	0%	0%

The expected volatilities were estimated based on historical volatility. The expected term of options granted represents the period of time that options granted are expected to be outstanding. The risk-free interest rate assumption is determined using the Federal Reserve nominal rates for U.S. Treasury zero-coupon bonds with maturities similar to those of the expected term of the award. The weighted average fair value of share options granted for the years ended December 31, 2008 was \$1.85 and the weighted average fair value of restricted shares granted for the year ended December 31, 2009 and 2010 were \$2.24 and \$4.24, respectively.

On September 23, 2009, we entered into a definitive agreement for a private equity placement of 75 million of our newly issued ordinary shares with Jason Nanchun Jiang through JJ Media Investment Holding Limited, for a purchase price of \$1.899 per share, representing the average closing price of the shares during the twenty consecutive trading days preceding the signing of the definitive agreement. On November 18, 2009, the private equity placement was consummated and we received gross proceeds of \$142.4 million. The shares issued to JJ Media Investment Holding Limited are subject to a six month lock-up. This transaction resulted in share based compensation expense of \$4.0 million, which represents the excess of the fair value of our shares over the purchase price. The fair value of the shares reflects our closing share price on the trading day immediately preceding the signing date of the definitive agreement.

The following table summarizes the share-based compensation recognized in the consolidated statements of operations:

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	For the years ended December 31,		
	2008	2009	2010
Cost of sales	\$ 1,469,847	\$ 1,504,092	\$ 976,822
General and administrative	22,890,581	26,037,349	40,272,194
Selling and marketing	15,814,828	12,221,732	4,342,602
Net income (loss) from discontinued operations	2,439,910	26,739,961	—
<b>Total</b>	<b>\$42,615,166</b>	<b>\$66,503,134</b>	<b>\$45,591,618</b>

**Amortization of Acquired Intangibles.** Our amortization of acquired intangibles consists of the amortized portion of intangible assets we acquired through our acquisition of other companies and assets. The Group recorded amortization expense as follows:

	For the years ended December 31,		
	2008	2009	2010
Cost of revenues	\$20,085,255	\$14,282,389	\$12,734,069
Selling and marketing	7,556,965	4,664,850	4,106,231
Net income (loss) from discontinued operations	12,446,394	8,331,505	765,859
<b>Total</b>	<b>\$40,088,614</b>	<b>\$27,278,744</b>	<b>\$17,606,159</b>

The Group expects to record amortization expense of \$13,857,578, \$7,125,284, \$1,966,988, \$575,670, and \$541,556 for the years ending December 31, 2011, 2012, 2013, 2014 and 2015, respectively.

### **Critical Accounting Policies**

We prepare our financial statements in conformity with U.S. GAAP, which requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities on the date of the financial statements and the reported amounts of revenues and expenses during the financial reporting period. We continually evaluate these estimates and assumptions based on the most recently available information, our own historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Since the use of estimates is an integral component of the financial reporting process, actual results could differ from those estimates. Some of our accounting policies require higher degrees of judgment than others in their application. We consider the policies discussed below to be critical to an understanding of our financial statements as their application places the most significant demands on our management's judgment.

### **Revenue Recognition**

The Group's revenues are primarily derived from advertising services and, to a lesser extent, sales from advertising equipment.

Revenues from advertising services and advertising equipment are recognized when (i) persuasive evidence of an arrangement exists; (ii) delivery of the products and/or services has occurred and risks and rewards of ownership have passed to the customer; (iii) the selling price is both fixed and determinable; and (iv) collection of the resulting receivable is reasonably assured.

The Group generates advertising service revenues from the sale of advertising time slots in the out-of-home television advertising networks, the sales of frame space on the poster frame network, advertising time slots on big screen networks leased from movie theatres and on traditional billboard networks and the sale of advertising services through our Internet network. In the majority of advertising arrangements, the Group acts as a principal in the transaction and records advertising revenues on a gross basis. The associated expenses are recorded as cost of revenues. In some instances the Group is considered an agent and recognizes revenue on a net basis. Revenues from

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advertising services are recognized, net of agency rebates, ratably over the period in which the advertisement is displayed, assuming all other revenue recognition criteria have been met.

Revenues from the sale of advertising equipment are recognized upon delivery, assuming all other revenue recognition criteria have been met.

The Group enters into franchise arrangements with a number of third party franchisors. Revenue from initial franchise fees was recognized when the franchise sale transaction was completed, that is, when all material services or conditions relating to the sale had been substantially performed or satisfied by the franchisor.

Prepayments for advertising services are deferred and recognized as revenue when the advertising services are rendered.

### *Accounts Receivable*

We generally collect our advertising service fees by billing our advertising clients within 60 to 90 days after completion of the advertising contract and book these unbilled or unpaid amounts as accounts receivable until we receive payment or determine the account receivable to be uncollectible.

Our accounts receivable are general unsecured obligations of our advertising clients and we do not receive interest on unpaid amounts. We make specific reserves for accounts that we consider to be uncollectible based on known changes in customers' ability to pay. We also provide a general reserve for uncollectible accounts that we reassess on a quarterly basis. The general reserve is determined by applying certain percentages to each aging group of account receivables. The estimated percentages of uncollectible account receivables for general reserve purpose was affected by management's perception about general economic environment and historical collection data for each aging group. The actual collection may materially differ from what the management estimated. In 2008, 2009 and 2010, we made provisions of \$15.8 million, \$29.1 million and \$0.5 million, respectively, for accounts receivable that were outstanding for longer than six months. The significant increase in bad debt reserves in 2008 and 2009 was primarily due to unfavorable macro economic conditions caused by the financial crisis in late 2008. The significant reduction in bad debt reserves in 2010, as compared with previous years was primarily due to reversal of bad debt provisions we made for over-due accounts receivables in 2009, which were reversed upon their collection as well as overall stronger collections in 2010 due to more favorable macro-economic conditions. We do not anticipate significant future reversal of the 2010 bad debt provision because macro-economic conditions are expected to be stable and revenue is expected to increase in the near future. Therefore, we expect that the bad debt provision will increase in absolute dollar terms in 2011 and after.

### *Share-based Compensation*

Share-based compensation is measured at the grant date, based on the fair value of the award, and is recognized as an expense over the employees' requisite service period. Our share-based compensation plans are described in Note 13 to our consolidated financial statements and above in the section "Item 5. Operating and Financial Review and Prospects — Share-based Compensation" on page 63.

The fair value of restricted shares is the market value of the ordinary shares on the date of grant whereas the fair value of options granted to both employees is estimated on the date of grant using the Black-Scholes-Merton option pricing model, which requires the input of highly subjective assumptions, including the estimated expected life of the share options, and the price volatility of the underlying shares. The assumptions used in calculating the fair value of share options represent management's best estimates, but these estimates involve inherent uncertainties and the application of management judgment. As a result, if factors change and we use different assumptions, our share-based compensation expense could be materially different in the future. In addition, we estimate our expected forfeiture rate and recognize the expense only for those shares expected to vest. These estimates are based on past employee retention rates and our expectations of future retention rates. We will prospectively revise our estimated forfeiture rates based on actual history. Our compensation expense may change based on changes to our actual forfeitures of these share-based compensation.

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### *Income Taxes*

We record a valuation allowance to reduce our deferred tax assets to the amount that we believe is more likely than not to be realized. In the event we determine that we will be able to realize our deferred tax assets in the future, in excess of their recorded amount, an adjustment to our deferred tax assets would increase our income in the period such determination was made. Likewise, if we determine that we will not be able to realize all or part of our net deferred tax assets in the future, an adjustment to our deferred tax assets would decrease our income in the period such determination was made. We record income tax expense on our taxable income using the balance sheet liability method at the effective rate applicable to each of our affiliated entities in China in our consolidated statements of operations and comprehensive income. In 2010, one of our subsidiaries obtained HNTE status in China. This tax status, along with the applicable tax holidays, allows the subsidiary to benefit from a tax exemption for the two years ended December 31, 2011.

### *Goodwill Impairment*

We test goodwill for possible impairment on an annual basis as of December 31 of each year and at any other time 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. Circumstances that could trigger an impairment test between annual tests include, but are not limited to:

- a significant adverse change in the business climate or legal factors;
- an adverse action or assessment by a regulator;
- unanticipated competition;
- loss of key personnel;
- the likelihood that a reporting unit or a significant portion of a reporting unit will be sold or disposed of;
- change in reportable segments; and/or
- results of testing for recoverability of a significant asset group within a reporting unit.

The timing of an impairment test may result in charges to our statements of operations in our current reporting period that could not have been reasonably foreseen in prior periods. Application of the goodwill impairment test requires judgment, including the identification of reporting units, assigning assets and liabilities to the reporting units, assigning goodwill to reporting units and estimating the fair value of each reporting unit. Estimates of fair value of each reporting unit is significantly affected by assumptions such as future revenue growth rates, gross margin percentages, operating margin percentages, effective tax rates, terminal growth rates, discount rates, working capital requirements and capital expenditures. Changes in these estimates and assumptions could materially affect the determination of fair value of each reporting unit which could trigger impairment.

As of December 31, 2008, 2009 and 2010, we had a goodwill balance of \$30.7 million, \$410.4 million and \$425.3 million, respectively. Our goodwill primarily arises from the initial consideration paid and subsequent settlement of contingent consideration of our business acquisitions. The following table presents the changes in our goodwill balance for the years ended December 31, 2009 and 2010:

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	LCD display network	Poster frame network	Internet advertising	Movie theater & traditional outdoor billboards	Total
<b>Balance as of January 1, 2009</b>	\$ —	\$ —	\$ 30,699,525	\$ —	\$ 30,699,525
Goodwill acquired during the year	1,100,903	—	—	—	1,100,903
Goodwill recorded as a result of contingent consideration resolved	1,992,683	30,396,719	16,208,898	33,249,508	81,847,808
Modification of original purchase price allocation	—	—	193,266	—	193,266
Goodwill impairment	—	(30,396,719)	(23,961,974)	(33,249,508)	(87,608,201)
Reclassified from assets held for sale	402,742,395	—	—	—	402,742,395
Disposal of subsidiaries	—	—	(18,867,217)	—	(18,867,217)
Translation adjustments	260,212	—	—	—	260,212
<b>Balance as of December 31, 2009</b>	406,096,193	—	4,272,498	—	410,368,691
Goodwill acquired during the year	—	3,958,444	—	—	3,958,444
Goodwill recorded as a result of contingent consideration resolved	5,038,676	15,551,019	—	—	20,589,695
Goodwill impairment	—	(5,736,134)	—	—	(5,736,134)
Disposal of subsidiaries	—	—	(4,272,498)	—	(4,272,498)
Translation adjustments	399,355	27,079	—	—	426,434
<b>Balance as of December 31, 2010</b>	<b>\$ 411,534,224</b>	<b>\$ 13,800,408</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 425,334,632</b>

The contingent consideration for our reporting units were each calculated at multiples of approximately 1 to 17.5 of the specified earning targets for each individual entity, which were determined at the time of the acquisitions. In contrast, the goodwill impairment test was performed at the reporting unit level, as opposed to the individual entity level. Further, the reporting unit's fair value is based on projected performance as opposed to historical performance.

**Goodwill impairment in 2009**

On September 28, 2009, the Company and SINA jointly decided to abort the proposed acquisition announced on December 22, 2008. As such, the assets classified as held-for-sale as of December 31, 2008 were reclassified as assets to be held and used. At the time of reclassification, the assets were required to be measured at the lower of (1) their carrying amount before they were classified as held-for-sale, adjusted for any depreciation or amortization that would have been recognized had the assets been continuously classified as held and used or (2) their fair value at the date of reclassification. Certain of the reclassified assets had a fair value lower than their carrying value, which the Group believed was a goodwill impairment indicator. Accordingly, the Group performed an impairment test using the income approach valuation method on the two reporting units subject to reclassification, LCD display network and poster frame network. The analysis resulted in an impairment of \$16.4 million, representing all of the poster frame reporting unit's remaining goodwill. This goodwill was the result of the settlement of contingent consideration while the associated reporting unit was classified as held-for-sale. The LCD display reporting unit passed the first step of the impairment test with fair value exceeding the carrying amount by a substantial margin and therefore, incurred no impairment loss.

In the fourth quarter of 2009, the Group paid further contingent consideration of \$14.0 million related to the poster frame network reporting unit. The contingent consideration for the poster frame units was calculated based on multiples of 1 to 2 of the achieved earnings target, which were determined at the time of the acquisitions. This amount was recorded as additional goodwill and was immediately impaired as there had been no material changes in the fair value of the reporting unit subsequent to September 28, 2009, the most recent impairment analysis date before December 31, 2009. The impairment test for goodwill arising from poster frame acquisitions was performed for the whole reporting unit rather than for each individual subsidiary. As a result, when the reporting unit's fair value, which is based on management's forecasted operating results for the reporting unit as a whole, declined significantly due to contracting customer demand caused by the financial crisis and increased competition, the additional goodwill arising from such

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contingent consideration was impaired even though individual subsidiaries were able to meet their respective earnings targets. The balance of goodwill for the poster frame reporting unit remained at zero at December 31, 2009.

The annual impairment test for the LCD display network at December 31, 2009 did not result in additional goodwill impairment as there had been no material changes in the fair value of this unit subsequent to the date of the last impairment test on September 28, 2009.

In August 2009, the Group started to negotiate with the ex-shareholders of various subsidiaries within the Internet advertising segment to sell back part of the equity interests held by the Group in those entities, in exchange for the reduction of future earn-out payments stated in the original purchase agreements. These transactions were considered a triggering event for performing an impairment test for the Internet advertising reporting unit, which was the reporting unit for the purpose of the goodwill impairment test. As a result of the test, the Group recorded a goodwill impairment of \$24.0 million using an income approach. Subsequently, the Group disposed of these subsidiaries, which resulted in a de-recognition of goodwill amounting to \$18.9 million. These amounts, along with all operations of these subsidiaries, have been classified as a component of loss from discontinued operations in the consolidated statements of operations.

As of December 31, 2009, the Internet advertising reporting unit had a goodwill balance of \$4.3 million. The Group performed its annual impairment test at the end of the year, which indicated that the fair value exceeded the carrying amount by a significant margin and, therefore, no further goodwill impairment was recognized.

We settled contingent purchase consideration of \$33.2 million associated with the movie theatre and traditional outdoor billboard reporting unit during the year ended December 31, 2009. The entire \$33.2 million related to the traditional outdoor billboard portion of this unit. This amount was recorded as additional goodwill and was immediately impaired as there had been no material changes in the fair value of the reporting unit subsequent to the December 31, 2008, the most recent impairment analysis date, which was still lower than the carrying amount of the reporting unit on December 31, 2009. As the balance of goodwill remained at zero at December 31, 2009, no annual impairment test for movie theatre and traditional outdoor billboard reporting unit was required.

### **Goodwill impairment in 2010**

We settled contingent purchase consideration of \$5,736,134 associated with the poster frame network reporting unit during the three months ended March 31, 2010. The amount was recorded as additional goodwill and was immediately impaired as there had been no material changes in the fair value of the poster frame network reporting unit subsequent to December 31, 2009, the most recent impairment analysis date, which was still lower than the carrying amount of the poster frame network reporting unit on March 31, 2010. We did not incur any goodwill impairment after March 31, 2010 because annual impairment tests performed on December 31, 2010 indicated the fair value of the poster frame network reporting unit exceeded the carrying amount as a result of significant improvement of the reporting unit's profitability and business outlook.

We further settled contingent purchase consideration of \$5,038,676 and \$9,814,885 associated with the LCD display network and poster frame network reporting units during 2010. Our annual impairment test was performed for both reporting units using the income approach valuation method as of December 31, 2010, which indicated that the fair value of both reporting units significantly exceeded their carrying amounts. Therefore, no goodwill impairment was recognized.

### ***Long-lived Asset Impairment***

We test long-lived assets for possible impairment if an event occurs or circumstances change that would more likely than not reduce the fair value of an asset group below its carrying amount. Asset recoverability is an area involving management judgment, requiring assessment as to whether the carrying value of assets can be supported by the undiscounted future cash flows. In calculating the undiscounted future cash flows and fair value, certain assumptions are required to be made in respect of highly uncertain matters such as revenue growth rates, gross margin percentages, net operating margin percentages, effective tax rates, and terminal growth rates and the economic life of each long-lived asset.

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### **Impairment of long-lived assets in 2009**

During the first quarter of 2009, we announced that we would cease expansion of our digital poster frame networks and, in response to a regulation promulgated by Shanghai Municipality Government in early 2009, the operation of our boat-based advertising platform on the Huangpu River. As part of the assets to be sold to SINA, both digital poster frames and boat-based advertising platform on the Huangpu River were classified as assets held-for-sale until September 2009. In accordance with U.S. GAAP, such assets were not depreciated or amortized nor were they subject to the same impairment analysis as assets held and used. With the termination of the agreement with SINA in the third quarter of 2009, the Company decided that the chances of fully utilizing the majority of our digital frames or selling them to third parties in the future were remote as manifested by deteriorating quarterly revenue and gross profit performances since the beginning of 2009. As a result, the Company recorded an impairment loss of \$27.0 million, which represents the excess of carrying amount of those digital frames over their fair value, representing the estimated salvage value of those digital frames that could be utilized as spare parts for the equipment already installed and in use as of March 31, 2009. The Company also decided that the chances of resuming operation of the boat-based advertising platform on the Huangpu River were remote and that it was not be economically viable to operate the platform on other rivers in China and, therefore, recorded an impairment loss of equipment and intangible assets associated with the platform of \$9.5 million and \$3.2 million, respectively.

In August 2009, the Company started to negotiate with the ex-shareholders of various subsidiaries within the Internet segment to sell back part of the equity interests held by the Company in those entities in exchange for the reduction of future earn-out payments. Some of these partial equity disposal transactions were closed towards the end of August. Subsequently the Company completely disposed of its remaining equity interests in those subsidiaries within the Internet businesses during the quarter ended December 31, 2009. As a result, the Company recorded an impairment loss of the disposal of intangible assets of \$19.0 million within the loss from discontinued operations.

In addition, a \$22.2 million impairment loss was recorded for the acquired intangible assets for certain subsidiaries in our internet advertising business that was underperforming. The impaired intangible assets primarily consisted of technology, lease agreements, customer base and trademark. We also recorded a \$1.5 million impairment loss on equipment related to the discontinuation of our mobile handset advertising business and a \$2.3 million impairment loss on equipment from the disposal of CGEN.

### **Impairment of long-lived assets in 2010**

The Group did not incur impairment loss on equipment nor acquired intangible assets for the year ended December 31, 2010.

### **Taxation**

#### ***Cayman Islands, the British Virgin Islands and Hong Kong.***

Under the current laws of the Cayman Islands and the British Virgin Islands, none of Focus Media Holding Limited, and its subsidiaries incorporated in Cayman Islands or the British Virgin Islands, is subject to tax on its income or capital gains. Focus Media Hong Kong, and Hua Kuang Advertising Company Limited, our wholly owned subsidiaries incorporated in Hong Kong, are subject to profits tax rate of 16.5% on its assessable profits, yet interest derived from deposits placed in Hong Kong with authorized institutions is exempted from the Hong Kong profits tax. In addition, payment of dividends by either company is not subject to withholding tax in those jurisdictions.

#### ***Taxable Presence Exposure in the PRC***

The newly enacted Enterprise Income Tax Law and its implementation regulations, as discussed below, provides that enterprises established under the laws of foreign countries or regions whose “de facto management

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bodies” are located within the PRC are considered PRC resident enterprises and will be subject to the PRC Enterprise Income Tax at the rate of 25% on their worldwide income. Under the Implementation Rules of the PRC Enterprise Income Tax Law, as discussed below, 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. Although our main management and investment functions are performed outside of China, there is uncertainty regarding whether PRC tax authorities would deem us to be a PRC resident enterprise. If we are treated as resident enterprises for PRC tax purposes, we will be subject to PRC tax on our worldwide income at the 25% tax rate, which would have an impact on our effective tax rate. Additionally, under such circumstances, dividends distributed from our PRC subsidiaries to our BVI company and ultimately to our Cayman Islands company, could be exempt from Chinese dividend withholding tax, and dividends from our Cayman Islands company to ultimate shareholders would be subject to Chinese withholding tax at 10% or a lower treaty rate.

### **PRC**

Prior to January 1, 2008, pursuant to the PRC Income Tax Laws, the Company’s subsidiaries and VIEs were generally subject to Enterprise Income Tax (“EIT”) at a statutory rate of 33%, which comprised 30% national income tax and 3% local income tax.

On January 1, 2008, a new EIT law (the “New Law”) in China took effect. The New Law applies a uniform 25% EIT rate to both foreign invested enterprises and domestic enterprises. The New Law provides a five-year transition period from its effective date for those enterprises which were established before the promulgation date of the New Law and which were entitled to a preferential tax treatment under the PRC Income Tax Laws, such as a reduced tax rate or a tax holiday. On December 26, 2007, the State Council issued the Notice of the State Council Concerning Implementation of Transitional Rules for Enterprise Income Tax Incentives (“Circular 39”). Based on Circular 39, certain specifically listed categories of enterprises which enjoyed a preferential tax rate of 15% are eligible for a graduated rate increase to 25% over the 5-year period beginning from January 1, 2008. Specifically, the applicable rates under such an arrangement for such enterprises would be 18%, 20%, 22%, 24% and 25% for 2008, 2009, 2010, 2011, 2012 and thereafter, respectively. Preferential tax treatments will continue to be granted to industries and projects that are strongly supported and encouraged by the state, and enterprises that qualify as “new and high technology enterprises strongly supported by the state (“HNTE”) under the New Law will be entitled to a 15% preferential EIT rate.

Most of the Company’s subsidiaries and VIEs transitioned from 33% to 25%, effective January 1, 2008. Those that currently enjoyed a lower tax rate of 15% as high-tech companies under the PRC Income Tax Laws transition to the uniform tax rate of 25% from 2008 unless they obtain the HNTE status under the New Law. The Group has thus generally applied the 25% rate in calculating its deferred tax balances. Subsidiaries and VIEs with temporary differences reversing during the holiday period have used the reduced rates in calculating their deferred tax balance.

Among the subsidiaries and VIEs, Beijing Focus Media Wireless Co., Ltd. and Beijing Kong Zhong Hui Ke Technology Co., Ltd., qualified for the transitional rule under Circular 39 and thus enjoyed 0% for 2008 and enjoys a 50% reduction off the transitional tax rate from 2009 through 2011 based on the transitional rule under the New Law. The Company’s 100% owned subsidiary, Focus Media Information Technology (China) Co., Ltd. was incorporated on August 22, 2008 in Shanghai Pudong New Area, and obtained the HNTE qualification on June 22, 2010. Therefore, Focus Media Information Technology (China) Co., Ltd. is exempted from the EIT for the two years ending December 31, 2010 and 2011 and enjoys a 50% deduction for the next three years.

The Group has elected to classify interest and penalties relating to income tax matters within income tax expense. The amount of penalties and interest as of adoption and December 31, 2008, 2009 and 2010 are immaterial. The Group decreased its liabilities for unrecognized tax benefits by \$3,080,251, \$592,525 and nil in connection with

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effective settlement of prior-year tax uncertainties during the years ended December 31, 2008, 2009 and 2010, respectively. The Group does not anticipate any significant increases or decreases to its liability for unrecognized tax benefits within the next 12 months. According to the PRC Tax Administration and Collection Law, the statute of limitations is generally three years if the underpayment of taxes is due to computational errors made by the taxpayer. The statute of limitations will be extended to five years under special circumstances, which are not clearly defined, but an underpayment of tax liability exceeding RMB100,000 (approx. \$15,000 under the current exchange rate) is specifically listed as a special circumstance. In the case of a transfer pricing related adjustment, the statute of limitations is 10 years. There is no statute of limitations in the case of tax evasion. The status of limitations in Hong Kong is six years.

### **Recently Issued Accounting Standards**

In January 2010, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2010-06, “Fair Value Measurements and Disclosures (Topic 820) — Improving Disclosures about Fair Value Measurements”. The ASU amends ASC 820 (formerly SFAS 157) to add new requirements for disclosures about (1) the different classes of assets and liabilities measured at fair value, (2) the valuation techniques and inputs used, (3) the activity in Level 3 fair value measurements, and (4) the transfers between Levels 1, 2, and 3. The guidance in the ASU is effective for the first reporting period beginning after December 15, 2009. The adoption of the ASU did not have a material impact on the Group’s financial statements, except for the requirement to provide the Level 3 activity of purchases, sales, issuances, and settlements on a gross basis, which will be effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. In the period of initial adoption, entities will not be required to provide the amended disclosures for any previous periods presented for comparative purposes. However, those disclosures are required for periods ending after initial adoption. Early adoption is permitted. The Group does not expect the adoption of the Level 3 guidance of this ASU to have a significant impact on its consolidated financial statements.

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”. This ASU amends guidance for Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. 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. ASU 2010-28 is effective for fiscal years and interim periods beginning after December 15, 2010, with early adoption not permitted. The Group does not expect that the adoption of ASU 2010-28 will have a material impact on its financial position, results of operations, or cash flows.

In December 2010, the FASB issued ASU 2010-29, “Disclosure of Supplementary Pro Forma Information for Business Combinations”. This ASU specifies that if a public company presents comparative financial statements, the entity should only disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period. ASU 2010-29 is effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010, with early adoption permitted. The adoption of ASU 2010-29 will not impact the Group’s financial position, results of operations, or cash flows.

### **Acquisitions**

Since we commenced our current business operations in May 2003, we have acquired numerous companies to expand the coverage of our network in China and to acquire businesses that are complementary to our operations. See “Item 10.C Additional Information — Material Contracts”.

Some of the businesses we acquired had entities located both in and outside of China. The consideration we paid for these businesses was made in two parts, one part for the entity located in China, and the other part for the entity located outside of China. For consideration paid to acquire entities located in China, we withheld on behalf of sellers who are natural persons 20% of the amount by which the acquisition price exceeded the registered capital of such PRC entity as required under the PRC Individual Income Tax Law and related implementation rules. We were not required to and did not withhold any tax in connection with payments made to acquire the entities located outside of China. See “Item 3.D Key Information — Risk Factors — Risks Relating to the People’s Republic of

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China — The PRC tax authorities may require us to pay additional taxes in connection with our acquisitions of offshore entities that conducted their PRC operations through their affiliates in China”.

### **2009 acquisitions:**

We did not make any significant acquisitions in 2009. We made aggregate cash payment of \$92.4 million during the year as the result of consideration made to acquire the noncontrolling interests of certain subsidiaries in the current year, as well as resolved contingent considerations for prior year acquisitions. We recorded additional goodwill for resolved contingent consideration of \$81.8 million during the year ended December 31, 2009, of which \$10.5 million was related to 2008 acquisition.

### **2010 acquisitions:**

We acquired five entities in the poster-frame advertising business for fixed cash consideration of \$5.3 million in aggregate in 2010. There were no contingent considerations related to these acquisitions. We recognized acquired intangible assets of \$1.2 million and recognized goodwill of \$4.0 million, which was assigned to poster frame reporting unit.

In addition, we also made aggregate cash payment of \$34.8 million during the year as the result of resolved contingent considerations for prior year acquisitions, of which \$14.2 million was resolved in the prior year and recorded as acquisition payable in the prior year’s balance sheet, and recorded additional goodwill of \$20.6 million.

### **Disposition**

We do not use specific metrics or defined parameters in evaluating whether a subsidiary or a segment is underperforming. Rather, we use a number of quantitative and qualitative factors in assessing performance. Quantitative factors primarily include: (i) current and, more importantly projected, gross profit as compared with other segments; (ii) current and projected operating profit compared with other segments; and (iii) current and projected working capital requirements compared with other segments. Qualitative factors include, but are not limited to: strategic fit of a particular segment to our overall strategies; synergies of a particular business with other segments; and the industry dynamics a segment has encountered or may encounter in the future.

Once an underperforming segment or a subsidiary is identified, we further evaluate whether or not the segment or subsidiary should be disposed. This determination is also based on a number of quantitative and qualitative factors, such as how quickly or easily the segment or subsidiary can be turned around, the degree of difficulty expected in selling the segment or subsidiary to a third party, the financial burden we would bear if the segment or subsidiary is retained and the overall effect retention would have on the profitability, working capital, cash flow and share price of the company as a whole.

### **2009**

In 2009, we aborted a contemplated initial public offering for its Internet advertising segment due to the economic recession in late 2008. As a result, between August and December 2009, we disposed of six underperforming subsidiaries in that segment through a series of individual transactions with their respective original owners. Each of the subsidiaries was considered a component of our company, and their results have been included in discontinued operations in the consolidated statements of operations. The results of discontinued operations include net revenues and pretax losses of \$127.6 million and \$45.4 million, respectively, related to these subsidiaries. We recorded a loss on disposal of \$44.1 million.

The following table summarizes the acquired subsidiaries in the mobile handset advertising services segment and Internet advertising segment that were sold back to their original owners in 2009:

	<u>Acquisitions</u>	<u>Date of acquisition</u>	<u>Business segment</u>	<u>Proceeds paid</u>	<u>Date of Disposal</u>	<u>Loss on disposal</u>
1.	Catchstone	2007-4-16	Internet advertising	\$14,489,647	2009-12-22	\$11,560,617
2.	WonderAd	2007-9-15	Internet advertising	\$14,926,003	2009-11-30	\$14,926,003
3.	Jiahua	2007-8-15	Internet advertising	\$ 7,659,158	2009-12-1	\$ 7,659,158
4.	Wangmai	2007-9-1	Internet advertising	\$ 2,749,158	2009-12-14	\$ 2,749,158
5.	Jichuang	2007-12-1	Internet advertising	\$ 366,032	2009-8-24	\$ 366,032
6.	1024	2008-3-1	Internet advertising	\$ 3,397,124	2009-12-18	\$ 3,397,124
7.	Dongguan Yaya	2007-10-1	Mobile handset advertising services	\$ 1,540,612	2009-2-28	\$ 1,588,110

The six subsidiaries in the Internet advertising segment were acquired during 2007 and 2008 based on the belief that, as a result, we would be in a better position to negotiate pricing with internet property owners and rebate rates with 4A agencies, while promoting Allyes’ Smart Trade advertising performance tracking platform and facilitating cross-sales between our other internet businesses and other business lines. However, these acquisitions did not result in these anticipated synergies due to the expansion of the Chinese internet advertising market, which permitted international agencies to enter the market thereby reducing reliance on local agencies. As a result, rebate rates from 4A agencies did not increase by as much as we had originally expected. Furthermore, major internet property owners were reluctant to lower their inventory prices due to the strong demand for their inventories.

The internet advertising business segment was determined to be underperforming because the segment’s gross profits declined steadily from 2007 to 2010 and its gross profit margin had been consistently lower than that of other business segments, with the exception of in-store network. The number of days outstanding for accounts receivable had increased to a level that was inconsistent with our other lines of business as of June 30, 2009. We believed there was little opportunity for the business to improve its profitability in the future.

Since our internet advertising business, as a whole had been an underperforming segment, we decided to refocus our growth strategy on the organic growth of our core businesses, namely advertising through LCD display poster frame, in-store and movie theater networks. We first disposed of the six acquired internet subsidiaries because the earn-out periods for each of these acquisitions were still in effect. However, due to significant accrued and potential contingent payments of those subsidiaries we could not locate a buyer willing to purchase these subsidiaries. Therefore, we negotiated with the respective original owners of these subsidiaries, who were the incumbent management, to cancel the accrued and potential contingent payments owed to them pursuant to the terms of the respective purchase agreements in exchange for the return of their respective businesses.

Dongguan Yaya, the subsidiary in the mobile handset advertising services segment, was disposed of in 2009 because we had disposed of all other subsidiaries in the mobile handset advertising services segment in 2008 and did not plan to retain it due its small size.

In addition, in 2009 we also disposed of a subsidiary in the traditional outdoor billboard segment, Tou Jia and incurred a disposal loss of \$3.6 million. Tou Jia was primarily engaged in the advertising agency business in the traditional outdoor billboard segment. Tou Jia's business experienced a severe decline in revenue, gross profit and operating profit in Q2 2009 compared to Q1 2009 and Q2 2008, while its peer companies in the traditional outdoor billboard segment performed much better during the same period. Further, its number of days in accounts receivable increased to a level that indicated it would not be able to fund its own working capital requirements. We decided to dispose of Tou Jia based on these observations, compounding difficulties associated with the financial crisis and our belief that as a result of these factors, a turn-around would be unlikely.

We also disposed of three subsidiaries in the poster frame segment and incurred a loss of \$3.6 million. These subsidiaries were determined to be underperforming due to poor working capital, a material decline in gross profit and the loss of a significant portion of their rental contracts for advertising space in residential buildings to competitors. Such factors made a future turn-around of the businesses unlikely.

#### **2010 Disposition**

In January 2010, certain employees and management of Allyes and certain members of the Company's management and directors entered into a definitive agreement with the Company and Allyes to buy-out an aggregate 38% interest in Allyes from the Company for a cash consideration of \$13.3 million. On July 30, 2010, the Company further entered into a definitive share purchase agreement with Asteroid Media Holdings Limited, a wholly-owned investment vehicle of Silver Lake Management, L.L.C., or Silver Lake, pursuant to which the Company sold to Silver Lake the Company's entire remaining 62% ownership interest in Allyes at a cash consideration of \$124 million. Following the disposition of Allyes, the Group is no longer engaged in the internet advertising business and therefore, the results of internet advertising business have been included in discontinued operations in the consolidated statements of operations for all periods presented. The results of discontinued operations include net revenues and profit before tax of \$80.6 million and \$5.2 million, respectively, related to Allyes and its subsidiaries and affiliates. We recorded a gain on disposal of \$79.0 million.

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**Quarterly Results of Operation**

The following table presents unaudited consolidated quarterly financial data for each of the eight quarters in the period from March 31, 2009 to December 31, 2010. You should read the following table in conjunction with our audited consolidated financial statements and related notes included elsewhere in this Form 20-F. We have prepared the unaudited consolidated quarterly financial information on substantially the same basis as our audited consolidated financial statements and using information derived from our unaudited consolidated financial statements which are not included in this Form 20-F. The following information contains normal recurring adjustments which are, in the opinion of our management, necessary for a fair presentation of the results for such unaudited period. Our operating results for any quarter are not necessarily indicative of results that may be expected for any future period.

Consolidated Statement of Operations Data	March 31, 2009	June 30, 2009	September 30, 2009	For the three months ended				
				December 31, 2009	March 31, 2010	June 30, 2010	September 30, 2010	December 31, 2010
(in thousands of U.S. dollars)								
<b>Net revenues:</b>								
LCD display network (1)	\$ 34,323	\$ 54,250	\$ 55,810	\$ 64,116	\$ 50,100	\$ 72,387	\$ 82,894	\$ 92,022
In-store network (1)	6,344	8,967	7,646	7,389	7,662	10,868	9,408	9,839
Poster frame network (1)	23,537	26,499	22,129	26,797	24,799	25,238	32,227	39,629
Movie theatre and traditional outdoor billboards (1)	19,211	14,762	12,487	12,597	14,138	13,873	12,818	18,174
Total advertising service revenue	83,415	104,478	98,072	110,899	96,699	122,366	137,347	159,664
Other revenues	3	95	197	5	55	143	5	36
<b>Total revenues</b>	<b>83,418</b>	<b>104,573</b>	<b>98,269</b>	<b>110,904</b>	<b>96,754</b>	<b>122,509</b>	<b>137,352</b>	<b>159,700</b>
<b>Cost of revenues:</b>								
LCD display network	11,678	11,194	38,636	14,620	14,945	14,377	19,022	19,030
In-store network	4,267	6,025	11,490	2,388	5,219	6,123	5,996	6,094
Poster frame network	12,345	12,858	52,550	17,648	18,448	19,298	21,670	25,071
Movie theatre and traditional outdoor billboards	14,164	10,884	9,486	10,551	9,922	10,833	10,597	14,906
Advertising service cost:	42,454	40,961	112,162	45,207	48,534	50,631	57,285	65,101
Other costs	—	93	194	3	—	110	1	28
<b>Total cost of revenues</b>	<b>42,454</b>	<b>41,054</b>	<b>112,356</b>	<b>45,210</b>	<b>48,534</b>	<b>50,741</b>	<b>57,286</b>	<b>65,129</b>
<b>Gross profit (loss)</b>	<b>40,964</b>	<b>63,519</b>	<b>(14,087)</b>	<b>65,694</b>	<b>48,220</b>	<b>71,768</b>	<b>80,066</b>	<b>94,571</b>
<b>Operating expenses:</b>								
General and administrative	17,358	22,988	16,125	32,362	21,318	16,737	24,942	16,763
Selling and marketing	15,574	23,938	21,137	19,138	20,592	28,729	24,474	29,927
Impairment loss	9,271	24,145	16,203	14,027	5,736	—	—	—
Other operating (income) expenses	(2,671)	3,489	15,861	(3,568)	(3,796)	(1,353)	(2,699)	(6,296)
Total operating expenses	39,532	74,560	69,326	61,959	43,850	44,113	46,717	40,394
<b>Income (loss) from operations</b>	<b>1,432</b>	<b>(11,041)</b>	<b>(83,413)</b>	<b>3,735</b>	<b>4,370</b>	<b>27,655</b>	<b>33,349</b>	<b>54,177</b>
Interest income	1,413	1,215	981	1,337	1,717	1,064	2,667	1,812
Investment loss	—	—	—	—	(1,288)	—	—	—
<b>Income (loss) from continuing operations before income taxes</b>	<b>2,845</b>	<b>(9,826)</b>	<b>(82,432)</b>	<b>5,072</b>	<b>4,799</b>	<b>28,719</b>	<b>36,016</b>	<b>55,989</b>
Provision for income taxes	2,445	5,107	(4,819)	11,047	6,194	4,850	2,561	8,731
<b>Net income (loss) from continuing operations</b>	<b>400</b>	<b>(14,933)</b>	<b>(77,613)</b>	<b>(5,975)</b>	<b>(1,395)</b>	<b>23,869</b>	<b>33,455</b>	<b>47,258</b>
<b>Net income (loss) from discontinued operations, net of tax</b>	<b>(6,073)</b>	<b>(7,816)</b>	<b>(47,028)</b>	<b>(50,695)</b>	<b>804</b>	<b>2,933</b>	<b>79,341</b>	<b>—</b>
<b>Net income (loss)</b>	<b>(5,673)</b>	<b>(22,749)</b>	<b>(124,641)</b>	<b>(56,670)</b>	<b>(591)</b>	<b>26,802</b>	<b>112,796</b>	<b>47,258</b>
Net income (loss) attributable to noncontrolling interests	19	223	2,958	324	363	1,465	59	104
<b>Net income (loss) attributable to Focus Media Holdings Limited shareholders</b>	<b>\$ (5,692)</b>	<b>\$ (22,972)</b>	<b>\$ (127,599)</b>	<b>\$ (56,994)</b>	<b>\$ (954)</b>	<b>\$ 25,337</b>	<b>\$ 112,737</b>	<b>\$ 47,154</b>

(1) Advertising service revenue is presented net of sales taxes. The following tables present the unaudited quarterly sales taxes information:

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Consolidated Statement of Operations Data	For the three months ended							
	March 31, 2009	June 30, 2009	September 30, 2009	December 31, 2009	March 31, 2010	June 30, 2010	September 30, 2010	December 31, 2010
(in thousands of U.S. dollars)								
Sales taxes:								
LCD display network	\$ 3,987	\$ 5,597	\$ 4,502	\$ 6,539	\$ 5,273	\$ 7,526	\$ 8,755	\$ 9,397
In-store network	671	933	804	784	826	1,129	981	1,026
Poster frame network	2,271	2,755	2,025	2,513	2,614	2,386	3,269	3,925
Movie theatre and traditional outdoor billboards	635	268	316	270	534	506	845	890
Total	<u>\$ 7,564</u>	<u>\$ 9,553</u>	<u>\$ 7,647</u>	<u>\$ 10,106</u>	<u>\$ 9,247</u>	<u>\$ 11,547</u>	<u>\$ 13,850</u>	<u>\$ 15,238</u>

Certain quarterly financial information related to each fiscal quarter of the fiscal years ended December 31, 2009 have been restated and differ from previously announced information in the Forms 6-K furnished to the SEC as a result of the following:

- 1) In the third and fourth quarters of 2009, we reduced our equity interests in certain underperforming subsidiaries in our Internet segment and subsequently completely disposed of our interest in those subsidiaries in the fourth quarter of 2009. The results of operations of these subsidiaries have been accounted for as discontinued operations in accordance with U.S. GAAP for all periods presented; and
- 2) Subsequent to the filing of our fourth quarter 2009 results in the Form 6-K furnished to the SEC on March 16, 2010, PRC State Tax Bureau released a circular numbered 2010[157] on April 21, 2010, which clarified preferential tax holiday treatments for those who also qualified as HNTE. According to this circular, companies qualified as HNTE can either enjoy a 50% reduction off the tax rate from 2009 through 2011 based on the transitional rule, or enjoy an EIT rate of 15%. In no cases can companies enjoy the preferential tax rate of 7.5%, which is a 50% deduction of 15%. Accordingly, income tax of \$0.5 million was additionally provided subsequently to reflect the difference between 7.5%, the rate previously utilized, and 10%, which is the rate applied according to the transition rules.
- 3) Subsequent to the filing of our fourth quarter 2009 results in the Form 6-K furnished to the SEC on March 16, 2010, the Company recognized additional \$4.0 million share-based compensation expenses in its financial results for the third quarter 2009, due to the Company's private equity placement of 75 million of its ordinary shares with JJ Media Investment Holding, a British Virgin Island company established and controlled by Jiang Nan Chun, CEO and Chairman of the Company. The \$4.0 million share-based compensation expense represents the average closing price of the shares during the twenty consecutive trading days preceding the signing of the definitive agreement.
- 4) In July 2010, we completely exited the internet advertising business by selling all our equity ownership in Allyes to a third party investor. Therefore, the results of Allyes and its consolidated subsidiaries and affiliates have been classified as discontinued operations for all the periods presented.

On December 22, 2008, we entered into a definitive agreement with SINA to sell substantially all of the assets of our LCD display network, poster frame network and certain in-store network. The assets to be sold to SINA were recorded as an asset group held-for-sale in accordance with U.S. GAAP, and were not depreciated or amortized nor were they subject to the same impairment analysis as assets held and used in continuing operations. Therefore, the financial measures related to the asset group to be sold to SINA for the quarters ended on March 31, 2009 and June 30, 2009 did not include any amortization or depreciation expenses related to the intangible and fixed assets or impairment of fixed assets, goodwill and other long-lived assets. On September 28, 2009, we and SINA jointly reached a decision not to extend the deadline of the agreement announced on December 22, 2008. As such, the assets proposed to be sold to SINA, were reclassified for financial reporting purpose, as assets to be held and used. In accordance with U.S. GAAP, we recorded depreciation expense of \$17.0 million on September 28, 2009, which represented the cumulative catch-up of depreciation expenses we would have recorded during the period from December 22, 2008 to September 28, 2009.

The following table presents our unaudited consolidated quarterly financial data as a percentage of our total revenues for the periods indicated.

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Consolidated Statement of Operations Data	For the three months ended							
	March 31, 2009	June 30, 2009	September 30, 2009	December 31, 2009	March 31, 2010	June 30, 2010	September 30, 2010	December 31, 2010
<b>Net revenues:</b>								
LCD display network (1)	41.1%	51.9%	56.8%	57.8%	51.8%	59.1%	60.4%	57.6%
In-store network (1)	7.6%	8.6%	7.8%	6.7%	7.9%	8.9%	6.8%	6.2%
Poster frame network (1)	28.2%	25.3%	22.5%	24.2%	25.6%	20.6%	23.5%	24.8%
Movie theatre and traditional outdoor billboards (1)	23.1%	14.1%	12.7%	11.3%	14.6%	11.3%	9.3%	11.4%
Other revenues	0.0%	0.1%	0.2%	0.0%	0.1%	0.1%	0.0%	0.0%
<b>Total revenues</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
<b>Cost of revenues:</b>								
LCD display network	14.0%	10.7%	39.3%	13.2%	15.4%	11.7%	13.8%	11.9%
In-store network	5.1%	5.8%	11.7%	2.2%	5.4%	5.0%	4.4%	3.8%
Poster frame network	14.8%	12.3%	53.5%	15.9%	19.1%	15.8%	15.8%	15.7%
Movie theatre and traditional outdoor billboards	17.0%	10.4%	9.6%	9.5%	10.3%	8.8%	7.7%	9.4%
Other costs	0.0%	0.1%	0.2%	0.0%	0.0%	0.1%	0.0%	0.0%
<b>Total cost of revenues</b>	<b>50.9%</b>	<b>39.3%</b>	<b>114.3%</b>	<b>40.8%</b>	<b>50.2%</b>	<b>41.4%</b>	<b>41.7%</b>	<b>40.8%</b>
<b>Gross profit (loss)</b>	<b>49.1%</b>	<b>60.7%</b>	<b>(14.3%)</b>	<b>59.2%</b>	<b>49.8%</b>	<b>58.6%</b>	<b>58.3%</b>	<b>59.2%</b>
Operating expenses:								
General and administrative	20.8%	22.0%	16.4%	29.2%	22.0%	13.7%	18.2%	10.5%
Selling and marketing	18.7%	22.9%	21.5%	17.3%	21.3%	23.4%	17.8%	18.7%
Impairment loss	11.1%	23.1%	16.5%	12.6%	5.9%	0.0%	0.0%	0.0%
Other operating (income) expenses	(3.2%)	3.3%	16.1%	(3.2%)	(3.9%)	(1.1%)	(2.0%)	(3.9%)
<b>Total operating expenses</b>	<b>47.4%</b>	<b>71.3%</b>	<b>70.5%</b>	<b>55.9%</b>	<b>45.3%</b>	<b>36.0%</b>	<b>34.0%</b>	<b>25.3%</b>
<b>Income (loss) from operations</b>	<b>1.7%</b>	<b>(10.6%)</b>	<b>(84.8%)</b>	<b>3.3%</b>	<b>4.5%</b>	<b>22.6%</b>	<b>24.3%</b>	<b>33.9%</b>
Interest income	1.7%	1.2%	1.0%	1.2%	1.8%	0.9%	1.9%	1.1%
Investment loss	0.0%	0.0%	0.0%	0.0%	(1.3%)	0.0%	0.0%	0.0%
<b>Income (loss) from continuing operations before income taxes</b>	<b>3.4%</b>	<b>(9.4%)</b>	<b>(83.8%)</b>	<b>4.5%</b>	<b>5.0%</b>	<b>23.5%</b>	<b>26.2%</b>	<b>35.0%</b>
Provision for income taxes	2.9%	4.9%	(4.9%)	10.0%	6.4%	4.0%	1.9%	5.5%
<b>Net income (loss) from continuing operations</b>	<b>0.5%</b>	<b>(14.3%)</b>	<b>(78.9%)</b>	<b>(5.5%)</b>	<b>(1.4%)</b>	<b>19.5%</b>	<b>24.3%</b>	<b>29.5%</b>
<b>Net income (loss) from discontinued operations, net of tax</b>	<b>(7.3%)</b>	<b>(7.5%)</b>	<b>(47.9%)</b>	<b>(45.7%)</b>	<b>0.8%</b>	<b>2.4%</b>	<b>57.8%</b>	<b>0.0%</b>
<b>Net income (loss)</b>	<b>(6.8%)</b>	<b>(21.8%)</b>	<b>(126.8%)</b>	<b>(51.2%)</b>	<b>(0.6%)</b>	<b>21.9%</b>	<b>82.1%</b>	<b>29.5%</b>
Net income (loss) attributable to noncontrolling interests	0.0%	0.2%	3.0%	0.3%	0.4%	1.2%	0.0%	0.1%
<b>Net income (loss) attributable to Focus Media Holdings Limited shareholders</b>	<b>(6.8%)</b>	<b>(22.0%)</b>	<b>(129.8%)</b>	<b>(51.5%)</b>	<b>(1.0%)</b>	<b>20.7%</b>	<b>82.1%</b>	<b>29.4%</b>

(1) Advertising service revenue is presented net of sales taxes. The following table presents the unaudited quarterly percentage of sales taxes against gross revenues:

Sales taxes:	For the three months ended							
	March 31, 2009	June 30, 2009	September 30, 2009	December 31, 2009	March 31, 2010	June 30, 2010	September 30, 2010	December 31, 2010
LCD display network	10.4%	9.4%	7.5%	9.3%	9.5%	9.4%	9.6%	9.3%
In-store network	9.6%	9.4%	9.5%	9.6%	9.7%	9.4%	9.4%	9.4%
Poster frame network	8.8%	9.4%	8.4%	8.6%	9.5%	8.6%	9.2%	9.0%
Movie theatre and traditional outdoor billboards	3.2%	1.8%	2.5%	2.1%	3.6%	3.5%	6.2%	4.7%
<b>Total</b>	<b>8.3%</b>	<b>8.4%</b>	<b>7.2%</b>	<b>8.4%</b>	<b>8.7%</b>	<b>8.6%</b>	<b>9.2%</b>	<b>8.7%</b>

## A. Operating Results

### Results of Operations

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

**Total Revenues.** Our total revenues from continuing operations increased substantially from \$397.2 million in 2009 to \$516.3 million in 2010 due primarily to an increase in our advertising service revenue.

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- **LCD Display Network.** Advertising service revenue from our LCD display network increased 42.6% from \$208.5 million in 2009 to \$297.4 million in 2010. 2010 was a year of strong and robust recovery in the advertising market compared to that of 2009. Our core business's value proposition to advertisers is gaining momentum as the strength and effectiveness of our core business is becoming increasingly recognized by advertisers, especially the LCD display network. Meanwhile, the aggressive ad price hikes of traditional TV broadcasters have presented exciting growth opportunities to us. As a result, the 42.6% increase is primarily contributed by: a) the average selling price we charged to our customers increased by approximately 30% in our tier-1 cities and 10% — 15% in our tier-2 cities in 2010 compared to that of 2009; and b) the average utilization rate<sup>(1)</sup> of the LCD display network capacity has experienced a significant increase from 39% in 2009 to 52% in 2010.

Note (1):

*Average utilization rate = total advertising service revenue / the aggregate theoretical revenue (i.e. standard price x no. of time slots for sale x average sales discount)*

- **In-store Network.** Advertising service revenue from our in-store network increased 24.8% to \$37.8 million in 2010 from \$30.3 million in 2009. This increase was primarily attributable to a) the average selling price we charged to our customer increased by approximately 10% in 2010 compared to that of 2009; and b) we have expanded our in-store network since Wal-Mart has been added to our in-store network in April 2010;
- **Poster Frame Network.** Advertising service revenue from our poster frame network increased 23.1% from \$99.0 million in 2009 to \$121.9 million in 2010. Similar to the LCD display network, the advertising revenue derived from our poster frame network also rebounded in 2010 as compared to 2009, especially for those cyclical industries such as automobile, financial services and personal products. As a result, the annual average utilization rate of our network capacity, increased from 29% in Top 4 cities in 2009 to 37% in 2010.
- **Movie Theatre and Traditional Outdoor Billboards.** Advertising service revenue derived from movie theatre increased by 90.5% from \$9.5 million in 2009 to \$18.1 million in 2010 as the effectiveness of this media is becoming increasingly recognized by our customers, especially for those engaged in automobile, telecom, diary and personal products. Advertising service revenue derived from traditional outdoor billboard declined 17.5% from \$49.6 million in 2009 to \$40.9 million in 2010. This is primarily attributable to our disposition of a subsidiary in the traditional outdoor billboard business in April 2009.

**Cost of Revenues.** Our cost of revenues declined from \$241.1 million in 2009 to \$221.7 million in 2010.

- **Cost of revenues — LCD display network.** Our net advertising service cost for LCD display network declined from \$76.1 million in 2009 to \$67.4 million in 2010. As discussed in page 70, —“Impairment of long-lived assets in 2009”, the cost of revenues in 2009 included an impairment loss of equipment and intangible assets associated with the boat-based advertising LED platform on the Huangpu River of \$9.5 million and \$3.2 million, respectively. Excluding the \$12.7 million impairment loss in 2009, the cost of revenues of LCD display network would have increased from \$63.4 million in 2009 to \$67.4 million in 2010, which is primarily attributable to: a) the cost of rental, location maintenance, utility and transportation, salary and benefits increased by approximately \$9.5 million as compared to that of 2009; and b) our not incurring any impairment in 2010, compared to our impairment of \$12.6 million of fixed assets and intangible assets reflected in our cost of revenues for 2009.
- **Cost of revenues — In-store network.** We incurred \$23.4 million in advertising service cost for our in-store network in 2010 as compared to \$24.2 million in 2009. The depreciation expenses for equipment installed in in-store network decreased by approximately \$1.0 million as the equipment that we installed in 2005 became fully depreciated in 2010.
- **Cost of revenues — Poster frame network.** Our advertising service cost for our poster frame network declined to \$84.5 million in 2010 compared to \$95.4 million in 2009. The \$95.4 million costs incurred in 2009 included an impairment loss of \$27.0 million, which represented the excess of carrying amount of the digital frames over their fair value that we determined in the third quarter of 2009. Excluding the impairment loss, the cost of revenues incurred in 2010 would have increased by \$16 million as compared to that of 2009, or \$68.4 million. The incremental cost of revenues are mainly attributable to: a) rental cost increased by \$11.8 million, which is led by incremental number of frames installed and the average rental cost; and b) other costs, including salary and benefits and, location maintenance costs, which increased by approximately \$4.9 million.
- **Cost of revenues — Movie theater and traditional outdoor billboards.** In 2010, we incurred \$13.8 million advertising service cost in movie theatre network, which mainly represents the advertising time slot leasing costs charged by movie operators, an increase of 96.1% from \$7.1 million in 2009 due to significant expansion of the movie theatre network. The advertising service cost incurred for traditional outdoor billboards in 2010 was \$32.4 million, a 14.8% decline from \$38.0 million in 2009. The decline is primarily due to our disposition of a subsidiary in the traditional outdoor billboard business.

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billboards, a 14.8% decline from \$38.0 million in 2009. The decline is primarily due to our disposition of a subsidiary in the traditional outdoor billboard business.

**Gross Profit.** As a result of the foregoing, our gross profit increased by 88.7% from \$156.1 million in 2009 to \$294.6 million in 2010. Our overall gross margin increased from 39.3% in 2009 to 57.1% in 2010 primarily due to: a) increasing utilization rate as well as average selling price in our core business (i.e. LCD display network, in-store network and poster frame network) which led to a higher margin as the advertising service costs for these core businesses are rather fixed; and b) there was no impairment charges for long lived assets in 2010 whereas in 2009, impairment charges included in the cost of revenues of our LCD display network and poster frame network amounted to \$12.7 million and \$27.0 million, respectively.

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	Year ended December 31,		
	2008 US\$'000	2009 US\$'000	2010 US\$'000
Gross profit			
LCD display network	\$ 162,190	\$ 132,371	\$ 230,029
In-store network	(1,115)	6,176	14,345
Poster frame network	86,936	3,561	37,406
Movie theatre and traditional outdoor billboards	20,234	13,972	12,745
Others	1,898	10	100
<b>Total</b>	<b>\$ 270,143</b>	<b>\$ 156,090</b>	<b>\$ 294,625</b>
Gross margin			
LCD display network	67.3%	63.5%	77.3%
In-store network	(1.8%)	20.4%	38.0%
Poster frame network	59.2%	3.6%	30.7%
Movie theatre and traditional outdoor billboards	26.2%	23.7%	21.6%
Others	52.4%	3.2%	42.1%
<b>Total</b>	<b>51.0%</b>	<b>39.3%</b>	<b>57.1%</b>

In the future, our gross margin may fluctuate depending on the respective financial performance and stage of development of each of our networks as well as the relative contribution to our revenues and costs of each network.

**Operating Expenses.** Our operating expenses declined significantly from \$245.4 million in 2009 to \$175.1 million in 2010. The decline in operating expenses was primarily due to less impairment loss and other operating expenses we incurred in 2010 compared to 2009.

*General and Administrative.* General and administrative expenses declined from \$88.8 million in 2009 to \$79.8 million in 2010. This was mainly due to: a) decrease of bad debt expenses by approximately \$28.6 million which was primarily attributable to reversal of bad debt provisions we made for over-due accounts receivable as of December 31, 2009 and strong collection of accounts receivable during 2010 under favorable macro-economic conditions; and b) increase of share-based compensation expense by approximately \$14.2 million, as we granted over 36,000,000 restricted shares in September 30, 2009, which resulted in higher amortization charges in 2010 as compared to 2009.

*Selling and Marketing.* Selling and marketing expenses increased from \$79.8 million in 2009 to \$103.7 million in 2010. This was mainly due to: a) a 30% increase in net revenues from 2009 to 2010; and b) the increase in the percentage of marketing and promotional expenses against the net revenue by approximately 3%.

*Impairment Loss.* We incurred \$5.7 million of goodwill impairment loss in 2010, which was mostly attributable to the poster frame network. We incurred a \$63.6 million goodwill impairment loss in 2009, which was mostly attributable to payment of contingent consideration to original owners of the subsidiaries acquired by us prior to 2009. These subsidiaries mostly belong to the poster frame network and traditional outdoor billboard business.

*Other operating expenses (income) net.* In 2010, we had operating income of \$14.1 million, primarily consisting of government subsidies, as compared to net other operating expense of \$13.1 million in 2009, which primarily consisted of a loss of \$7.4 million that we incurred an disposal of some subsidiaries in our poster frame and traditional outdoor billboard businesses, impairment of other long lived assets and penalty for termination of contract in the amount of \$16.6 million, partially offset by government subsidy of \$11.1 million.

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**Loss from Operations.** As a result of the foregoing, we had a gain from operations of \$119.6 million in 2010 compared to a loss from operations of \$89.3 million in 2009.

**Interest income.** Interest income increased from \$4.9 million in 2009 to \$7.3 million in 2010, primarily due to the increase in our average balance of cash and cash equivalents during 2010.

**Income from continuing operations before income tax.** As a result of the foregoing, we had a gain from continuing operations before income tax of \$125.5 million in 2010, compared to a loss from continuing operations before income tax of \$84.3 million in 2009.

**Income Taxes.** Our income taxes were \$22.3 million in 2010 compared to \$13.8 million in 2009. The increase in income tax in 2010 compared to 2009 was primarily due to the increase in taxable income in 2010. In 2010, we also benefited from a lower effective tax rate, as one of our PRC subsidiaries was granted HNTE status and thus was exempted from enterprise income tax in 2010.

**Net income (loss) from continuing operations.** As a result of the foregoing, we had a net income from continuing operations of \$103.2 million in 2010 as compared to a net loss from continuing operations of \$98.1 million in 2009.

**Net income (loss) from discontinued operations, net of tax.** Net income from discontinued operations in 2010 of \$83.1 million mainly represented the gain on disposal of Allies in the amount of \$79.0 million and the net income of Allies from January 1, 2010 till the date our interest in it was disposed. The net loss from discontinued operations of \$111.6 million in 2009 mostly represented the net loss generated by our subsidiaries in the Internet advertising business, loss from disposal of some of these subsidiaries in 2009 as well as impairment charges incurred.

**Net income (loss) attributable to Focus Media Holding Limited.** As a result of the foregoing and a net income of \$2.0 million attributable to a non-controlling interests in our subsidiaries, net income attributable to Focus Media Holding Limited was \$184.3 million in 2010 as compared to a net loss of \$213.3 million in 2009.

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

**Total Revenues.** Our total revenues from continuing operations declined substantially from \$529.2 million in 2008 to \$397.2 million in 2009 due primarily to a decrease in our advertising service revenue.

- **LCD Display Network.** Advertising service revenue from our LCD display network declined 13.4% from \$240.9 million in 2008 to \$208.5 million in 2009. The decline was primarily attributable to contracting demand from advertisers under unfavorable macro economic conditions. Advertisers from certain industries, such as automobile and financial services, significantly reduced their advertising budgets in 2009 amid the financial crisis that started in late 2008. As a result, the utilization of the network capacity had experienced a significant decline from 49% in 2008 to 39% in 2009 respectively, along with declines in the actual pricing of the broadcasting time.
- **In-store Network.** Advertising service revenue from our in-store network declined 50.1% to \$30.3 million in 2009 from \$60.7 million in 2008. This decline was primarily attributable to our restructuring of CGEN in December 2008. In January 2008, we acquired CGEN, which was our biggest competitor in in-store advertising segment. Subsequently, on December 10, 2008, we announced the disposition of the part of in-store advertising business acquired from CGEN and termination of CGEN acquisition agreement.
- **Poster Frame Network.** Advertising service revenue from our poster frame network declined 32.6% from \$146.8 million in 2008 to \$99.0 million in 2009. The poster frame network generated a significant portion of its 2008 and 2009 revenue from cyclical industries including automobile, financial services and real estate, which in aggregate accounted for 54% and 53% of 2008 and 2009 revenue, respectively. This decline in revenue was primarily attributable to contracting demand from advertisers in these industries, which were significantly affected by the global financial crisis and as a result, significantly reduced their advertising budget. In addition, we faced more intense competition in 2009 compared to 2008 as a result of contracting market demand. As a result, the annual average

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utilization rate of our network capacity, calculated by averaging quarterly utilization rates, decreased from 39% in Top 4 cities in 2008 to 29% in 2009. Actual pricing has also experienced a decline from RMB 724 per frame per month in 2008 to RMB 640 per frame per month in 2009 as a result of unfavorable macro economic conditions and increased competition.

- *Movie Theatre and Traditional Outdoor Billboards.* Advertising service revenue generated by our traditional outdoor billboards network declined 25.7% from \$66.8 million in 2008 to \$49.6 million in 2009. This was primarily attributable to our disposition of a subsidiary in traditional outdoor billboard business in April 2009. Also the advertising service revenue derived from our movie theatre network declined 8.7% from \$10.3 million in 2008 to \$9.4 million in 2009.

**Cost of Revenues.** Our cost of revenues declined from \$259.0 million in 2008 to \$241.1 million in 2009.

- *Cost of revenues — LCD display network.* Our net advertising service cost for LCD display network declined from \$78.7 million in 2008 to \$76.1 million in 2009. This decline was due to the fact that we dismantled some of the LED screens installed in certain commercial districts in Shanghai in the second quarter of 2009 and, therefore, no longer incurred location rental.
- *Cost of revenues — In-store network.* We incurred \$24.2 million in net advertising service cost for our in-store network in 2009 compared to \$61.8 million in 2008. The significant decline is primarily due to restructuring of CGEN we acquired in January, 2008 and to a minor degree due to our cost reduction initiatives taken since late 2008.
- *Cost of revenues — Poster frame network.* Our net advertising service cost for our poster frame network increased significantly to \$95.4 million in 2009 compared to \$59.8 million in 2008. The increase is mostly attributable to (1) a \$27.0 million impairment charge to our idle fixed assets, mostly digital poster frame; and (2) an increase in rental and depreciation in 2009 due to a significant increase in the number of digital poster frames at the beginning of the year and more intense competition from our competitors for desirable buildings to place our poster frames.
- *Cost of revenues — Movie theatre and traditional outdoor billboards.* In 2009, we recognized advertising service cost of \$38.0 million in our traditional outdoor billboards network, a 32% decline from \$50.3 million in 2008, primarily due to our disposition of a subsidiary in the traditional outdoor billboard business in April 2009. We incurred net advertising service cost of \$7.1 million in our movie theatre business in 2009, a 7.6% decline from \$6.6 million in 2008.

**Gross Profit.** As a result of the foregoing, our gross profit declined by 42.2% from \$270.1 million in 2008 to \$156.1 million in 2009. Our overall gross margin decreased during the same period from 51.0% in 2008 to 39.3% primarily due to a significant decline in revenues from our LCD display networks and poster frame networks as well as significant impairment charges to our idle equipment. Our gross margins for each of our businesses during these periods are presented in the foregoing table.

In the future, our gross margin may fluctuate depending on the respective financial performance and stage of development of each of our networks as well as the relative contribution to our revenues and costs of each network.

**Operating Expenses.** Our operating expenses declined significantly from \$722.2 million in 2008 to \$245.4 million in 2009. The decline in operating expenses was primarily due to less impairment loss and other operating expenses we incurred in 2009 compared to 2008.

*General and Administrative.* General and administrative expenses increased from \$79.2 million in 2008 to \$88.8 million in 2009 mainly due to the significant increase in bad debt reserve for account receivables from \$15.8 million in 2008 to \$29.1 million in 2009, which was caused by unfavorable macro economic conditions that led more advertisers to delay or default on their payments for advertising services we rendered.

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*Selling and Marketing.* Selling and marketing expenses declined from \$82.3 million in 2008 to \$79.8 million in 2009 due to the decrease in share-based compensation expenses from \$15.7 million in 2008 to \$12.2 million in 2009 by \$3.5M.

*Impairment Loss.* We incurred \$65.3 million of goodwill impairment loss in 2009, which was mostly attributable to payment of contingent consideration to original owners of the subsidiaries acquired by us prior to 2009. These subsidiaries mostly belong to the poster frame network and traditional outdoor billboard business. In 2008, we incurred a \$377.6 million goodwill impairment loss in 2008, which was mostly related to our poster frame reporting unit.

*Other operating expenses (income), net.* Other operating expenses (income), net included gain or loss on disposal of subsidiaries, government subsidies, loss on disposal of equipment, impairment of other long lived assets, and penalty for termination of contract. We incurred other operating expenses of \$183.1 million in 2008, primarily consisting of the loss on the disposal of CGEN of \$192.5 million, partially offset by \$13.5 million government subsidies. We recorded other operating expenses of \$13.1 million in 2009, which primarily consisted of loss of \$7.4 million that we incurred an disposal of some subsidiaries in our poster frame and traditional outdoor billboard businesses, impairment of other long lived assets and penalty for termination of contract in the amount of \$16.6 million, partially offset by government subsidies of \$11.1 million.

*Loss from Operations.* As a result of the foregoing, we had a loss from operations of \$89.3 million in 2009 compared to a loss from operations of \$452.0 million in 2008.

*Interest income.* Interest income declined from \$7.1 million in 2008 to \$4.9 million in 2009. This decline was mostly attributable to a lower interest rate applied to the Company's cash deposits in 2009.

*Loss from continuing operations before income tax.* As a result of the foregoing, we had a loss from continuing operations before income tax of \$84.3 million in 2009, compared to a loss from continuing operations before income tax of \$444.9 million in 2008.

*Income Taxes.* Our income taxes were \$13.8 million in 2009 as compared to \$25.3 million in 2008. The decline in income tax in 2009 comparing to the income tax in 2008 was primarily due to less PRC taxable income we had in 2009 than in 2008. For PRC tax purpose, share-based compensation expenses, goodwill impairment loss, most of amortization expenses of acquired intangible assets and losses from disposal of subsidiaries and restructuring business are not tax deductible. As a result, our taxable income in 2009 for PRC tax purpose was much lower than our taxable income in 2008, though under US GAAP, the Company incurred much less loss in 2009 than in 2008.

*Net loss from continuing operations.* As a result of the foregoing, our net loss from continuing operations was \$98.1 million in 2009 as compared to \$470.2 million in 2008.

*Loss from discontinued operations.* The net loss from discontinued operations of \$111.6 million in 2009 and \$300.7 million mostly represented the net income or loss generated by our subsidiaries in the Internet advertising business, loss from disposal some of these subsidiaries in 2009 as well as impairment charges incurred in both 2008 and 2009.

*Net loss attributable to Focus Media Holding Limited.* As a result of the foregoing and a net income of \$3.5 million attributable to a non-controlling interest in one of our Internet subsidiaries, our net loss attributable to Focus Media Holding Limited was \$213.3 million in 2009 as compared to \$770.7 million in 2008.

## **Liquidity and Capital Resources**

### ***Cash Flows and Working Capital***

To date, we have financed our operations primarily through cash generated from operating activities and sales of equity in private and public transactions. As of December 31, 2010, we had approximately \$454.5 million in

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cash and cash equivalents. In February 2010, we also announced a share-repurchase program to purchase up to \$200 million worth of issued and outstanding ADRs. Our cash and cash equivalents primarily consist of cash on hand and liquid investments with original maturities of three months or less that are deposited with banks and other financial institutions. We generally deposit our excess cash in interest bearing bank accounts. Although we consolidate the results of Focus Media Advertisement and its subsidiaries in our consolidated financial statements and we can utilize their cash and cash equivalents in our operations through Focus Media Advertisement and its subsidiaries, we do not have direct access to the cash and cash equivalents or future earnings of Focus Media Advertisement. However, these cash balances can be utilized by us for our normal operations pursuant to our agreements with Focus Media Advertisement and its subsidiaries that provide us with effective control over Focus Media Advertisement and its subsidiaries. In addition, we have access to the cash flows of Focus Media Advertisement and its subsidiaries through contractual arrangements with our subsidiaries Focus Media Technology and Focus Media Digital, which provide technical and other services in exchange for fees. See “Item 7.B Major Shareholders and Related Party Transactions — Related Party Transactions — Agreements Among Us, Focus Media Technology, Focus Media Digital, New Focus Media Advertisement, Focus Media Advertisement and Its Subsidiaries”.

Under PRC laws and regulations, each of our PRC operating subsidiaries is also required to set aside a portion of its net income each year to fund specific reserve funds. These reserves are not distributable as cash dividends. In particular, subject to certain cumulative limits, the statutory general reserve fund requires annual appropriations of 10% of after-tax income to be set aside prior to payment of dividends. Our WFOE operating subsidiaries have allocated annual after-tax profits to each of their respective reserve funds in compliance with these laws and regulations. For the years ended December 31, 2008, 2009 and 2010, we made total appropriations of \$4,665,681, \$10,765,735, and \$21,211,346 respectively. As a result of these PRC laws and regulations, our PRC operating subsidiaries and our PRC operating affiliates are restricted in their ability to transfer a portion of their net assets to us whether in the form of dividends, loans or advances. As of December 31, 2010, the amount of these restricted portions was approximately \$179.5 million. Our PRC operating affiliates have historically not paid dividends to us from accumulated profits, as we do not own any direct equity interests in these operating affiliates, and we do not intend for our operating affiliates to pay dividends to us in the foreseeable future. See “Risk Factors— We may rely principally on dividends and other distributions on equity paid by our WFOE 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 expect to require cash in order to fund our ongoing business needs, particularly the location costs connected with the placement of our television displays, to fund the ongoing expansion of our network and for payments in connection with our acquisitions. Other possible cash needs may include the upgrading of technology on our network as well as any payment of claims that could be made against us. We have not encountered any difficulties in meeting our current cash needs.

The following table shows our cash flows with respect to operating activities, investing activities and financing activities in 2008, 2009 and 2010:

	For the year ended December 31,		
	2008	2009	2010
	(in thousands of U.S. dollars)		
Net cash provided by operating activities	\$ 168,441	\$ 160,723	\$ 185,222
Net cash (used) in investing activities	(145,794)	(158,248)	(90,602)
Net cash provided by financing activities	(66,616)	144,499	(222,600)
Effect of exchange rate changes	16,469	(1,730)	14,297
Net increase in cash and cash equivalents	<u>(27,500)</u>	<u>145,244</u>	<u>(113,683)</u>

Cash provided by operating activities was \$185.2 million in 2010 compared to \$160.7 million in 2009. This increase was primarily attributable to improved cash collection of our accounts receivables in 2010. Days outstanding in accounts receivable for 2010 (defined as 365 days multiplied by the ending accounts receivable balance and divided by gross revenue) decreased to 100 days from 115 days for 2009. We had cash provided by

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operating activities of \$160.7 million in 2009, a 4.6% decline compared to \$168.4 million in 2008. Cash provided by operating activities has not declined in proportion to a 24.9% decline of our net revenue from \$529.2 million in 2008 to \$397.2 million in 2009. This is mainly attributable to improved collection of accounts receivable balance in 2009 compared to 2008. In response to the global financial crisis, we took measures to intensify collection of accounts receivable, which included: senior management focusing greater attention on timely collection of accounts receivable; more stringent collection discipline applied across the company in 2009; and greater efforts by our sales team to collect accounts receivable in order to secure their sales commissions. As a result of these measures, and to a lesser extent due to disposal of certain subsidiaries, the account receivable balance as of December 31, 2009 declined 38% to \$173 million from \$279 million as of December 31, 2008. Days outstanding in accounts receivable declined to 115 days for 2009 from 147 days for 2008. For a detailed reconciliation of our net income to net cash provided by operating activities, please refer to our consolidated cash flow statements contained in ITEM 18. Generally, payment of rental related expenses, income and other taxes and operating accrued liabilities, such as selling expenses, will have a material impact on our operating cash flow.

We had net cash used in investing activities of \$90.6 million in 2010, primarily consisting of the following: (1) net cash paid for purchases of debt and equity securities amounting to \$108.3 million; (2) \$40.2 million paid to acquire subsidiaries and earn-out payments for previous acquisitions, net of cash acquired; (3) \$18.7 million paid to purchase equipment and other long-term assets. Partially offset by (4) \$76.1 million (net of cash disposed) received from disposition of Allyes and \$0.5 million proceeds from disposition of equipment.

We had net cash used in investing activities of \$158.2 million in 2009, primarily consisting of the following: (1) investment in available-for-sale equity securities of \$29.3 million; (2) purchase consideration paid and deposits paid to acquire subsidiaries aggregating \$92.1 million, primarily for poster frame and traditional outdoor billboard; (3) capital expenditures of \$10.7 million; and (4) cash belonging to disposed subsidiaries of \$27.3 million. We had net cash used in investing activities of \$145.8 million in 2008, primarily consisting of the following: (1) cash in-flow from the sale of equity securities and bank notes of \$91.1 million; (2) capital expenditures of \$72.9 million, primarily for the purchase of digital poster frames and, to a minor degree, LCD displays; and (3) consideration paid and deposits paid to acquire subsidiaries aggregating \$147.6 million, primarily for acquiring CGEN and for contingent consideration paid to the companies we acquired prior to 2008.

We had \$222.6 million net cash outflow from financing activities in 2010, primarily consisted of \$237.2 million share repurchase offset by \$3.6 million proceeds from issuance of ordinary shares pursuant to share option plans as well as a \$11.0 million proceeds from the Allyes MBO plan. \$144.5 million net cash was provided by financing activities in 2009, primarily from the proceeds of \$142.4 million, net of issuance costs, from issuing new ordinary shares to JJ Media Investment Holding Limited. We had \$66.6 million net cash used by financing activities in 2008, primarily from the application of \$47.5 million to execute our share repurchase program and \$30.4 million to repay a short-term loan, offset in part by \$10.7 million in proceeds from the issuance of shares pursuant to our share option plan.

Our objective is to maintain the safety and liquidity of our cash. Therefore we intend to keep our cash and cash equivalents in short-term bank deposits and short-term bonds. We believe that our current cash and cash equivalents, cash flow from operations and the proceeds from our most recent private offering to JJ Media Investment Holding Limited will be sufficient to meet our anticipated cash needs, including for working capital and capital expenditures, for the foreseeable future. These additional cash needs may include costs associated with the expansion of our network, such as the purchase of flat-panel displays and LED digital billboards, and increased location cost, share repurchase program, and payment of contingent considerations related to the acquisition of our poster frame business, as well as possible acquisitions of our regional distributors. We are also required under PRC law to set aside 10% of our after-tax profits into a general reserve fund. We expect that revenues from operation of our advertising network will be sufficient to cover any such obligations. We may, however, require additional cash resources due to changed business conditions or other future developments. If these sources are insufficient to satisfy our cash requirements, we may seek to sell debt securities or additional equity securities or obtain a credit facility. The sale of convertible debt securities or additional equity securities could result in additional dilution to our shareholders. The incurrence of indebtedness would result in debt service obligations and could result in operating and financial covenants that would restrict our operations. We cannot assure you that financing will be available in amounts or on terms acceptable to us, if at all.

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From time to time, we evaluate possible investments, acquisitions or divestments and may, if a suitable opportunity arises, make an investment or acquisition or conduct a divestment.

### **Transactions with Related Parties**

Our transactions with related parties have been conducted on arm's length terms. See "Item 7. Major Shareholders and Related Party Transactions—B. Related Party Transactions" and Note 18 to our audited consolidated financial statements included in this annual report.

### **Capital Expenditures**

The following table sets forth our historical capital expenditures for the periods indicated. Actual future capital expenditures may differ from the amounts indicated below.

	For the year ended December 31,		
	2008	2009	2010
	(in thousands of U.S. dollars)		
Total capital expenditure	\$72,876	\$10,655	\$18,693

Our capital expenditures were made primarily to acquire and upgrade the flat-panel displays and digital frames for our advertising network. Our capital expenditures are primarily funded by net cash provided from operating activities. We expect our capital expenditures in 2011, in an amount of approximately \$35 million, to primarily consist of upgrading our flat-panel displays as we continue to expand our commercial location network, in-store network and poster frame network we also plan to launch our next generation of screens in seven cities in the second half of 2011. We believe these next generation screens will equip us with capabilities to provide interactive, measurable, location-based search services to advertisers, which we believe is of great importance for our next era of growth. As opportunities arise, we may make additional acquisitions of regional distributors and other businesses that complement our operations. We believe that we will be able to fund these upgrades and equipment purchases through the revenues we generate, and do not anticipate that these obligations will have a material impact on our liquidity needs.

### **Restricted Net Assets**

Relevant PRC laws and regulations permit payments of dividends by our PRC subsidiaries only out of their retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. In addition, PRC laws and regulations require that annual appropriations of 10% of after-tax income for our general reserve fund should be set aside prior to payment of dividends. As a result of these PRC laws and regulations, our PRC subsidiaries and our affiliated PRC entities are restricted in their ability to transfer a portion of their net assets to us whether in the form of dividends, loans or advances. As of December 31, 2010, the amount of our restricted net assets was approximately \$179.5 million.

## **B. Research, Development, Patents and Licenses, etc.**

### ***Research and Development***

We plan to launch our next generation of screens in seven cities in the second half of 2011. We believe these next generation screens will equip us with capabilities to provide interactive, measurable, location-based search services to advertisers, which we believe is of great importance for our next era of growth. We are also developing related software systems that will enable us to configure and run the content on our advertising network in conjunction with mobile communications systems.

### ***Patents and Trademarks***

We believe that the value of our advertising network derives from its effectiveness in reaching a large number of consumers with higher-than-average disposable incomes in urban areas. To a great extent, our business

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model does not rely on advanced or sophisticated technology or on proprietary trade secrets because our flat-panel displays are assembled with components purchased in off-the-shelf form from wholesale distributors. We endeavor to protect certain of the designs and operating software we use in each generation of our flat-panel displays. We currently hold design patents for our new model of flat-panel display and our software. We have the right to use several trademarks relating to the “Focus Media” brand name in China, South Korea, Taiwan, Japan and Singapore. We also have the right to use several trademarks relating to the “Framedia” brand name in China.

We do not know if our trademark applications will lead to registered trademarks with the scope of the goods and services we seek, if at all, or whether any trademark we have registered or may receive registration in the future will be challenged or invalidated. See Item 3.D Risk Factor — Risks Relating to Our Business and Industry — Unauthorized use of our intellectual property by third parties, and the expenses incurred in protecting our intellectual property rights, may adversely affect our business. We have also obtained copyright registration for a number of our software. We will continue to assess appropriate occasions for seeking trademark, copyright and other intellectual property protections for those aspects of our business that we believe provide significant competitive advantages.

### C. Trend Information

Please refer to “—Overview” for a discussion of the most significant recent trends in our production, sales, costs and selling prices. In addition, please refer to discussions included in this Item for a discussion of known trends, uncertainties, demands, commitments or events that we believe are reasonably likely to have a material effect on our net operating revenues, income from continuing operations, profitability, liquidity or capital resources, or that would cause reported financial information not necessarily to be indicative of future operating results or financial condition.

### D. 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.

### E. Tabular Disclosure of Contractual Obligations

The following table sets forth our contractual obligations and commitments with definitive payment terms on a consolidated basis which will require significant cash outlays in the future as of December 31, 2010.

	Payments due December 31					2015 and Thereafter
	TOTAL	2011	2012	2013	2014	
Display and poster frame placement agreement obligations	134,024	90,097	34,307	6,939	2,589	92
Office premise lease obligations	9,241	5,021	2,902	736	242	340
Total contractual obligations	<u>143,265</u>	<u>95,118</u>	<u>37,209</u>	<u>7,675</u>	<u>2,831</u>	<u>432</u>

Other than certain leasing arrangements relating to the placement of our flat-panel and office premises, as of December 31, 2010, we did not have any long-term debt obligations, operating lease obligations or purchase obligations.

A portion of the purchase consideration for certain acquisitions we made, such as Framedia, is contingent and based on earnings targets for two to three years subsequent to the acquisition, subject further to the attainment of certain operational targets. The maximum amount of such contingent payments for continuing and discontinued operations for 2011 is \$10 million in aggregate. As of December 31, 2010, other than such contingent earn-out payments and potential liabilities relating to litigation in which we are involved described under “— Legal

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Proceedings”, we had no other indebtedness, material contingent liabilities, or material mortgages or liens. We intend to meet our future funding needs primarily through net cash provided from operating activities.

### ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

#### A. Directors and Senior Management

The following table sets forth certain information relating to our directors and executive officers. The business address of each of our directors and executive officers is Unit No.1, 20th Floor, The Centrium, 60 Wyndham Street, Central, Hong Kong.

<u>Name</u>	<u>Age</u>	<u>Position</u>
Jason Nanchun Jiang	38	Chief Executive Officer and Chairman of the Board of Directors
Fumin Zhuo(1)	59	Director
Neil Nanpeng Shen(2)	43	Director
Charles Cao	45	Director
Daqing Qi(3)	48	Director
David Ying Zhang(4)	37	Director
Ying Wu (5)	52	Director
Kit Leong Low	40	Chief Financial Officer

- (1) Independent director, chairman of the compensation committee and member of the audit committee and the nominations committee.
- (2) Independent director and chairman of the nominations committee.
- (3) Independent director, chairman of the audit committee and member of the compensation committee and nominations committee.
- (4) Independent director and member of the compensation committee.
- (5) Independent director and member of the audit committee.

**Jason Nanchun Jiang**, our founder, has served as the chairman of our board of directors since May 2003 and our chief executive officer from May 2003 to March 2008. Mr. Jiang resumed his position as chief executive officer in January 2009. From 1994 to 2003, Mr. Jiang was the chief executive officer of Everease Advertising Corporation, which is one of the top 50 advertising agencies in China. Starting in 2003, Mr. Jiang was general manager of Aiqi Advertising, an advertising company founded by his immediate family members in 1997 which was renamed Focus Media Advertisement in May 2003 in connection with the establishment of our current business operations. In December 2003, Mr. Jiang was selected by China News Publisher’s Media magazine as one of the “Media People of the Year”. In September 2003, Mr. Jiang was selected by the Television and Newspaper Committees of the China Advertising Commission as one of its “contemporary outstanding advertising media personalities”. Mr. Jiang received a Bachelor of Arts degree in Chinese language and literature from Huadong Normal University in 1995.

**Fumin Zhuo** has served as our director since December 2004 and has more than 27 years of experience in investment and corporate management. Mr. Zhuo has also served as a general partner in SIG Capital Limited since July 2005. Prior to this, Mr. Zhuo served as chairman and chief executive officer of Vertex China Investment Company (VCI), a company concentrating in investments in the Greater China region, since he joined the fund in July 2002. From 1995 to July 2002, Mr. Zhuo was chief executive officer of Shanghai Industrial Holding Ltd. and chairman of SIIC Medical Science & Technology (Group). Prior to this, starting in 1987, Mr. Zhuo served as chief assistant officer of the Shanghai Economic System Reform Committee. Mr. Zhuo has extensive experience in venture capital fund formation, mergers and acquisitions, and investment management. Mr. Zhuo graduated from Shanghai Jiaotong University’s Electrical Engineering School with a degree in enterprise management and also holds a Master’s degree in economics from Fudan University.

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**Neil Nanpeng Shen** has served as our director since December 2004. Mr. Shen is the founding managing partner of Sequoia Capital China, or Sequoia China, a China-focused venture capital fund which was established in August 2005. Prior to founding Sequoia China, Mr. Shen was president and chief financial officer of Ctrip.com International Limited, or Ctrip, a Nasdaq-listed on-line travel services company he co-founded and for which he continues to serve as a director. Prior to founding Ctrip, Mr. Shen worked for more than eight years in the investment banking industry in New York and Hong Kong. He was a director at Deutsche Bank Hong Kong where he worked from 1996 to 1999. Prior to 1996, he worked at Chemical Bank, Lehman Brothers and Citibank in various investment banking positions. Mr. Shen is also co-founder and co-chairman of Home Inns & Hotels Management (Hong Kong) Limited. Mr. Shen received his Master's degree from the School of Management at Yale University and his Bachelor's degree from Shanghai Jiaotong University.

**Charles Cao** was appointed as our director in November 2005 to replace Ted Tak Dee Sun who passed away in September 2005. Mr. Cao is president and chief executive officer of SINA Corporation, an online media company listed on the Nasdaq Global Market. Before he joined SINA Corporation in September 1999, Mr. Cao served as an experienced audit manager with PricewaterhouseCoopers LLP, providing auditing and business consulting services for high tech companies in Silicon Valley, California. Mr. Cao received his master of professional accounting from University of Texas at Austin. He also holds an MA degree in journalism from University of Oklahoma and a BA degree in Journalism from Fudan University in Shanghai, China. Mr. Cao is a certified public accountant and a member of the American Institute of Certified Public Accountants.

**Daqing Qi** was appointed as our director on February 28, 2006 upon the closing of our acquisition of Target Media. Professor Qi is professor of accounting and associate dean of the Cheong Kong Graduate School of Business, where he has taught since 2002. From 1996 until 2002, Professor Qi was an associate professor in the School of Accountancy at the Chinese University of Hong Kong. Professor Qi also has extensive experience in providing executive training and consulting services in accounting and corporate finance to government departments and private companies, including the Ministry of Information Industries of the People's Republic of China, the Shanghai Municipal Government, China Mobile, China Unicom, China Telecom, China Netcom, Nokia and Ericsson. Professor Qi also serves on the board of directors of Sohu.com, a Nasdaq-listed company that provides online services in China. Professor Qi holds a B.S. degree in biophysics and a B.A. degree in journalism from Fudan University, an MBA degree from the University of Hawaii Manoa with a concentration in accounting and finance and a Ph.D. degree in accounting from the Eli Broad Graduate School of Management of Michigan State University.

**David Ying Zhang** was appointed as our director on September 28, 2007. Mr. Zhang is the managing director and head of the Beijing office of WI Harper, a private equity investment fund. Mr. Zhang joined WI Harper in late 2001 in the San Francisco office and moved back to China in early 2003. Prior to joining WI Harper, Mr. Zhang was a senior venture associate with ABN AMRO Capital focusing on the life sciences, information technology, and Internet sectors. Before joining ABN AMRO Capital, Mr. Zhang worked at Salomon Smith Barney. At WI Harper, Mr. Zhang has been responsible for investments in a number of companies including Pollex, Cardiva, Celestry Designs, Focus Media and iKang Healthcare. Mr. Zhang was born in Shanghai, grew up in the United States and holds a M.S. degree in biotechnology and business from Northwestern University and a B.S. in biology and chemistry from California State University, San Francisco.

**Ying Wu** was appointed our director in May 2008. Starting in 2008, has been a partner of CTC Venture Capital, of which he is a founder. Prior to 2008, Mr. Wu was a founder, chief executive officer and president of UTStarcom since 1995 and has many years of experience in managing investments in the media and telecommunications industry.

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

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We increased our board of directors from five to seven members when we completed our acquisition of Target Media, and further to nine members in 2007.

### **Duties of Directors**

Under Cayman Islands law, our directors have a duty of loyalty to act honestly in good faith with a view to our best interests. Our directors also have a duty to exercise the care, diligence and skills 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 amended and restated memorandum and articles of association. A 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' meetings and reporting its work to shareholders at such meetings;
- implementing shareholders' resolutions;
- determining our business plans and investment proposals;
- formulating our profit distribution plans and loss recovery plans;
- determining our debt and finance policies and proposals for the increase or decrease in our registered capital and the issuance of debentures;
- formulating our major acquisition and disposition plans, and plans for merger, division or dissolution;
- proposing amendments to our amended and restated memorandum and articles of association; and
- exercising any other powers conferred by the shareholders' meetings or under our amended and restated memorandum and articles of association.

### **B. Compensation**

In 2010, we paid aggregate cash compensation of approximately \$386,000 to our directors and executive officers as a group. In 2008, we granted to selected directors, officers and employees options to acquire an aggregate of 26,529,625 ordinary shares, of which 10,138,625 options were granted concurrently with the cancellation of 21,724,685 options granted during the period from October 3, 2007 to July 25, 2008. In 2009 and 2010, we granted selected directors, officers, employees and external consultants restricted shares to obtain 36,485,980 and 15,000,000 ordinary shares, respectively. We have no service contracts with any of our directors or executive officers that provide benefits to them upon termination. We do not pay or set aside any amounts for pension, retirement or other benefits for our officers and directors.

### **Share Option and Restricted Shares Plans**

In October 2006, the Group adopted the 2006 Employee Share Option Plan ("2006 Plan"), under which the Group may issue no more than 3.6% of issued ordinary shares for grant of options. In November 2007, the Group's 2007 Employee Share Option Scheme ("2007 Plan") was authorized, under which the Group is authorized to grant options or share appreciation rights or restricted shares to purchase up to 5% of the Group's issued and outstanding ordinary shares from time to time in the three years following the date of enactment of 2007 Plan. In December 2010, the 2010 Employee Share Option Plan ("2010 Plan") was authorized, under which the Group may issue 5% incentive shares of the issued share capital of the Company, outstanding from time to time, including stock options and restricted shares to Company's employees, officers, consultants and directors.

In 2008, options to purchase 26,529,625 ordinary shares were authorized and granted under 2007 Plan, of which 10,138,625 options were granted concurrently with the cancellation of 21,724,685 options granted during the

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period from October 3, 2007 to July 25, 2008 (“2008 Replacement”). This was accounted for as a modification with no incremental compensation cost as the fair value of the options immediately before modification was higher than the fair value of the modified options.

On September 22, 2009, as a result of performance evaluations, 1,776,300 of the 2008 Replacement options were cancelled and previously unrecognized compensation cost of \$2,587,993 was recognized on the cancellation date. In addition, 7,550,849 of the 2008 Replacement options, associated with 300 employees, were cancelled and replaced by an equivalent number of unvested restricted shares (“2009 Replacement”). This was accounted for as a modification with the incremental compensation cost of \$8,122,206, which was measured as the excess of the fair value of the restricted shares over the fair value of the cancelled options at the cancellation date. Further, restricted shares to obtain 28,935,131 ordinary shares were granted to employees in 2009. The restricted shares generally vest over a period of two to three years.

On December 28, 2010, restricted shares to obtain 15,000,000 ordinary shares were granted to employees, officers, consultants and directors. These restricted shares will vest over a period of three years.

Under the terms of each plan, options are generally granted at prices equal to the fair market value of the ordinary shares at the date of grant whereas restricted shares are granted without exercise price, expire 10 years from the date of grant and generally vest over two to four years with certain options vesting over one year. As of December 31, 2008, 2009 and 2010, 32,840,540, 15,642,620 and 11,962,045 options and nil, 36,448,980 and 39,207,730 restricted shares, respectively, were outstanding. The fair value of restricted shares was determined to be the market value of the ordinary shares on the date of grant whereas the fair value of options granted to employees was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

<b>Options granted to employees:</b>	<b>2008</b>	<b>2009</b>
Risk-free rate of return	1.59%-3.2%	0.87%
Weighted average expected option life	2.5 to 4 years	2.5 years
Volatility rate	53%-68.88%	88.32%
Dividend yield	0%	0%

The expected volatilities were estimated based on historical volatility. The expected term of options granted represents the period of time that options granted are expected to be outstanding. The risk-free interest rate assumption is determined using the Federal Reserve nominal rates for U.S. Treasury zero-coupon bonds with maturities similar to those of the expected term of the award. The weighted average fair value of share options granted for the years ended December 31, 2008 was \$1.85 and the weighted average fair value of restricted shares granted for the year ended December 31, 2009 and 2010 were \$2.24 and \$4.24, respectively.

Our compensation committee, which administers our option plans, has wide discretion to award options. Subject to the provisions of our option plans and the above allocation targets, our committee that administers our option plans determines who will be granted options, the type and timing of options to be granted, vesting schedules and other terms and conditions of options, including the exercise price. Any of our employees may be granted options. The number of options awarded to a person, if any, is based on the person’s potential ability to contribute to our success, the person’s position with us and other factors chosen by our board of directors.

Generally, to the extent an outstanding option granted under our option plans has not become vested on the date the grantee’s employment by or service with us terminates, the option will terminate and become unexercisable.

Our board of directors may amend, alter, suspend, or terminate each of our option plan at any time, provided, however, that in order to increase the limit of 20% of our share capital that may be granted as options, our board of directors must first seek the approval of our shareholders and, if such amendment, alteration, suspension or termination would adversely affect the rights of an optionee under any option granted prior to that date, the approval of such optionee. Without further action by our board of directors, our 2010 Option Plan will terminate in December 2020.

The table below sets forth the restricted share grants made to our directors and executive officers pursuant to our option plans as of December 31, 2010.

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	<u>Number of restricted shares issued</u>	<u>Exercise per ordinary share</u>	<u>Date of grant</u>	<u>Date of expiration</u>
		(in U.S. dollars)		
Jason Nanchun Jiang	19,500,000	\$nil	October 1, 2009	September 30, 2019
Fuming Zhuo	*	\$nil	October 1, 2009	September 30, 2019
Neil Nanpeng Shen	*	\$nil	October 1, 2009	September 30, 2019
Charles Cao	*	\$nil	October 1, 2009	September 30, 2019
Daqing Qi	*	\$nil	October 1, 2009	September 30, 2019
David Ying Zhang	*	\$nil	October 1, 2009	September 30, 2019
Ying Wu	*	\$nil	October 1, 2009	September 30, 2019
Alex Deyi Yang(1)	*	\$nil	October 1, 2009	September 30, 2019
Kit Leong Low	*	\$nil	January 15, 2010	September 30, 2019

\* Upon exercise of all options granted, would beneficially own less than 1% of our outstanding ordinary shares, assuming all of our outstanding preference shares are converted into our ordinary shares.

(1) Alex Deyi Yang resigned his position as our general manager and director as of May 24, 2011.

### **C. Board Practices**

Each of our directors holds office until a successor has been duly elected and qualified unless the director was appointed by our board of directors, in which case such director holds office until the next following annual meeting of shareholders at which time such director is eligible for reelection. All of our executive officers are appointed by and serve at the discretion of our board of directors. Neither we nor any of our subsidiaries has entered into a contract with any of our directors by which our directors are expected to receive benefits upon termination of their employment.

### **Board Committees**

Our board of directors has established an audit committee, a compensation committee and a nominations committee.

**Audit Committee.** Our audit committee currently consists of Daqing Qi, Ying Wu and Fumin Zhuo. Mr. Qi is the chairman of our audit committee. Our board of directors has determined that all of our audit committee members are “independent directors” within the meaning of Nasdaq Listing Rule 5605(a)(2) and meet the criteria for independence set forth in Section 10A(m)(3) of the U.S. Securities Exchange Act of 1934, or the Exchange Act.

Our audit committee is responsible for, among other things:

- recommending to our shareholders, if appropriate, the annual re-appointment of our independent auditors and pre-approving all auditing and non-auditing services permitted to be performed by the independent auditors;
- annually reviewing an independent auditors’ report describing the auditing firm’s internal quality-control procedures, any material issues raised by the most recent internal quality control review, or peer review, of the independent auditors and all relationships between the independent auditors and our company;
- setting clear hiring policies for employees or former employees of the independent auditors;
- reviewing with the independent auditors any audit problems or difficulties and management’s response;

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- reviewing and approving all proposed related-party transactions, as defined in Item 404 of Regulation S-K under the U.S. securities laws;
- discussing the annual audited financial statements with management and the independent auditors;
- discussing with management and the independent auditors major issues regarding accounting principles and financial statement presentations;
- reviewing reports prepared by management or the independent auditors relating to significant financial reporting issues and judgments;
- reviewing with management and the independent auditors the effect of regulatory and accounting initiatives, as well as off-balance sheet structures on our financial statements;
- discussing policies with respect to risk assessment and risk management;
- reviewing major issues as to the adequacy of our internal controls and any special audit steps adopted in light of material control deficiencies;
- timely reviewing reports from the independent auditors regarding all critical accounting policies and practices to be used by our company, all alternative treatments of financial information within U.S. GAAP that have been discussed with management and all other material written communications between the independent auditors and management;
- establishing procedures for the receipt, retention and treatment of complaints received from our employees regarding accounting, internal accounting controls or auditing matters and the confidential, anonymous submission by our employees of concerns regarding questionable accounting or auditing matters;
- 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, periodically, with management, the internal auditors and the independent auditors; and
- reporting regularly to the full board of directors.

**Compensation Committee.** Our current compensation committee consists of Fumin Zhuo, Daqing Qi and David Ying Zhang. Mr. Zhuo is the chairman of our compensation committee. Our board of directors has determined that all of our compensation committee members are “independent directors” within the meaning of Nasdaq Listing Rule 5605(a)(2).

Our compensation committee is responsible for:

- determining and recommending the compensation of our chief executive officer;
- reviewing and making recommendations to our board of directors regarding our compensation policies and forms of compensation provided to our directors and officers;
- reviewing and determining bonuses for our officers;
- reviewing and determining share-based compensation for our directors and officers;

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- administering our equity incentive plans in accordance with the terms thereof; and
- such other matters that are specifically delegated to the compensation committee by our board of directors from time to time.

**Nominations Committee.** Our current nominations committee consists of Neil Nanpeng Shen, Daqing Qi and Fumin Zhuo. Mr. Shen is the chairman of our nominations committee. Our board of directors has determined that all of our nominations committee members are “independent directors” within the meaning of Nasdaq Listing Rule 5605(a)(2).

Our nominations committee is responsible for, among other things, selecting and recommending the appointment of new directors to our board of directors.

**Foreign Private Issuer Home Country Practice.** The NASDAQ Marketplace Rules in general require listed companies to follow a stipulated set of corporate governance practices. As a foreign private issuer, we are permitted to, and we will, follow home country corporate governance practices instead of certain requirements of the NASDAQ Marketplace Rules, including, among others, the shareholder approval rules. The corporate governance practice in our home country, the Cayman Islands, does not require shareholder approval for the issuance of shares in a private placement at a price less than the greater of book value and market value, provided that the directors consider the issue price represents fair value for the shares being issued. We currently rely upon the relevant home country exemption in lieu of the requirement for shareholder approval of such share issuances.

### **D. Employees**

As of December 31, 2010, we had a total of 5151 full-time employees and no part-time employees. The following table sets out the number of staff by business area as of December 31, 2010:

	<u>Number of employees (1)</u>	<u>Percentage</u>
Sales and marketing	1,263	24.5%
Operations	3,138	60.9%
Management and administration	750	14.6%
Total number of employees	<u>5,151</u>	<u>100.0%</u>

(1) This excludes employees our regional distributors and agents who are not directly under our employ.

As required by PRC regulations, we participate in various employee benefit plans that are organized by municipal and provincial governments, including pension, work-related injury benefits, maternity insurance, medical and unemployment benefit plans. We are required under PRC law to make contributions to the employee benefit plans at specified percentages of the salaries, bonuses and certain allowances of our employees, up to a maximum amount specified by the local government from time to time. Members of the retirement plan are entitled to a pension equal to a fixed proportion of the salary prevailing at the member’s retirement date.

Generally we enter into a three-year standard employment contract with our officers and managers and a one-year standard employment contract with other employees. According to these contracts, all of our employees are prohibited from engaging in any activities that compete with our business during the period of their employment with us. Furthermore, the employment contracts with officers or managers include a covenant that prohibits officers or managers from engaging in any activities that compete with our business for two years after the period of their employment with us.

### **E. Share Ownership**

Please see Item 6.B. and Item 7.

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**ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS**

**A. Major Shareholders**

The following table sets forth information with respect to the beneficial ownership, within the meaning of Rule 13d-3 under the Exchange Act, of our ordinary shares, as of June 9, 2011:

each person known to us to own beneficially more than 5% of our ordinary shares and  
each of our directors and executive officers who beneficially own our ordinary shares.

Beneficial ownership includes voting or investment power with respect to the securities. Except as indicated below, and subject to applicable community property laws, the persons named in the table have sole voting and investment power with respect to all ordinary shares shown as beneficially owned by them. The number of our ordinary shares outstanding used in calculating the percentage for each listed person includes our ordinary shares underlying options held by such person that are exercisable within 60 days of June 9, 2011, but excludes ordinary shares underlying options held by any other person. Percentage of beneficial ownership is based on 668,267,925 ordinary shares outstanding as of June 9, 2011.

	Shares beneficially owned	
	Number	Percent
<b>Principal Shareholders</b>		
Fosun International Limited(1)	140,646,335	21.05
JJ Media Investment Holding Ltd. (2)	100,586,135	15.05%
<b>Directors and Executive Officers (3)</b>		
JJ Media Investment Holding Ltd./ Jason Nanchun Jiang (4)	100,586,135	15.05%
Neil Nanpeng Shen	*	*
Charles Chao	*	*
Fumin Zhuo	*	*
Daqing Qi	*	*
David Ying Zhang	*	*
Ying Wu	*	*
Kit Leong Low	*	*

\* Upon exercise of all options currently exercisable or vesting within 60 days of the date of this annual report, would beneficially own less than 1% of our ordinary shares.

- (1) Information based on the amended Schedule 13D filed on September 27, 2010 on behalf of Fosun International Limited. Includes 140,646,335 ordinary shares beneficially owned by Fosun International Limited. The business address of Fosun International Limited is Room 808, ICBC Tower, 3 Garden Road, Hong Kong, China.
- (2) Information based on the amended Schedule 13D filed on September 10, 2010 on behalf of Jason Nanchun Jiang and JJ Media Investment Holding Limited. Includes 100,586,135 ordinary shares beneficially owned by JJ Media Investment Holding Ltd. The business address of JJ Media Investment Holding Limited and Jason Nanchun Jiang is c/o Focus Media Holding Limited, Unit No.1, 20th Floor, The Centrium, 60 Wyndham Street, Central, Hong Kong.
- (3) The address of our current directors and executive officers is c/o Focus Media Holding Limited, Unit No.1, 20th Floor, The Centrium, 60 Wyndham Street, Central, Hong Kong.
- (4) See note 2.

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None of our major shareholders have different voting rights from those of our other shareholders. To the best of our knowledge, we are not directly or indirectly controlled by another corporation, by any foreign government or by any other natural or legal person severally or jointly.

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 shares held or beneficially owned by persons in the United States, see “Item 9. The Offer and Listing—Market Price Information for Our American Depositary Shares” in this annual report.

### B. Related Party Transactions

Details of advertising service revenue from related parties for the years ended December 31, 2008, 2009 and 2010 for the Group is as follows:

Name of related parties	Director interested	Year ended December 31,		
		2008	2009	2010
Shanghai Everease Advertising & Communication Ltd.	Jason Nanchun Jiang	\$ (132,116)	\$ —	\$ —
CTV Golden Bridge International Media Co., Ltd.	Daqing Qi	—	277,749	—
Sina.com	Charles Cao	1,637,297	548,988	1,034,741
Sohu.com	Daqing Qi	2,002,839	438,536	738,947
China Vanke Co., Ltd.	Daqing Qi	909,775	459,376	465,998
Home-Inn	Neil Nanpeng Shen	256,690	89,076	—
Ctrip.com	Neil Nanpeng Shen	69,863	486,263	79,601
51.com	Neil Nanpeng Shen	718	—	22,993
Qihoo.com	Neil Nanpeng Shen	48,385	38,008	17,461
UUSEE	Neil Nanpeng Shen	78,572	—	—
Aikong.com	Jason Nanchun Jiang	56,190	—	—
Giant Interactive Group Inc.	Jason Nanchun Jiang	4,153,948	368,242	385,720
Beijing Huayi Brothers	Jason Nanchun Jiang	43,561	—	—
StormNet Information Technology	David Zhang	—	—	2,569
Tea Care Group Ltd.	Fuming Zhuo	—	292,606	697,071
Yadu Huang Ke Technology Co., Ltd.	Fuming Zhuo	87,638	—	—
Focus Technology Co., Ltd.	Fuming Zhuo	—	43,200	—
<b>Total</b>		<b>\$ 9,213,360</b>	<b>\$ 3,042,044</b>	<b>\$ 3,445,101</b>

Details of advertising space leasing costs charged, net of rebates, to the Group by related parties for the years ended December 31, 2008, 2009 and 2010 were as follows:

Name of related parties	Director interested	Year ended December 31,		
		2008	2009	2010
Sina.com	Charles Cao	\$ 50,294,367	\$ 28,635,023	\$ 11,655,724
Sohu.com	Daqing Qi	39,061,219	17,208,874	8,047,723
Bona Film Group Ltd.	Daqing Qi	—	—	359,287
Ctrip.com	Neil Nanpeng Shen	343,546	146,356	130,251
51.com	Neil Nanpeng Shen	887,603	195,376	7,968
Qihoo.com	Neil Nanpeng Shen	847,021	109,564	—
UUSEE	Neil Nanpeng Shen	306,899	—	—
StormNet Information Technology	David Zhang	—	21,928	27,266
<b>Total</b>		<b>\$ 91,740,655</b>	<b>\$ 46,317,121</b>	<b>\$ 20,228,219</b>

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Details of amounts due from related parties as of December 31, 2009 and 2010 are as follows:

Name of related parties	Note	Director interested	December 31	
			2009	2010
Sina.com	(a)	Charles Cao	570,113	89,897
Sohu.com	(a)	Daqing Qi	2,685,730	—
Bona Film Group Ltd.	(a)	Daqing Qi	—	21,139
Ctrip.com	(a)	Neil Nanpeng Shen	(293)	—
Tea Care Group Ltd.	(a)	Fuming Zhuo	21,475	345,297
China Vanke Co., Ltd.	(a)	Daqing Qi	7,379	13,041
<b>Total</b>			<b>\$ 3,284,404</b>	<b>\$ 469,374</b>

Note (a) — These amounts represent trade receivables for advertising services provided or advances paid for advertising space leased.

Details of amounts due to related parties as of December 31, 2008 and 2009 are as follows:

Name of related parties	Note	Director interested	December 31,	
			2009	2010
Sina.com	(b)	Charles Cao	\$ 2,126,612	\$ 1,811,950
China Vanke Co., Ltd.	(b)	Daqing Qi	—	28,689
51.com	(b)	Neil Nanpeng Shen	32,871	—
StormNet Information Technology	(b)	David Zhang	54,376	—
Qihoo.com	(b)	Neil Nanpeng Shen	158	—
Arcom	(b)	David Zhang	—	7,550
Ctrip.com	(b)	Neil Nanpeng Shen	16,877	—
<b>Total</b>			<b>\$ 2,230,894</b>	<b>\$ 1,848,189</b>

Note (b) — The amounts represent trade payables for advertising services purchased or advances received for advertising services sold.

### **Other Related Party Transactions**

#### ***Loans to Shareholders of Our PRC Operating Affiliates***

Pursuant to loan agreements entered into by the relevant PRC operating subsidiaries and the individual shareholders of certain of our PRC operating affiliates, respectively, such shareholders obtained a loan of the registered capital of the relevant PRC operating affiliate from the relevant WFOE operating subsidiaries for the sole purpose of establishing or increasing, as the case may be, the registered capital of each such PRC operating affiliate. As of December 31, 2010, the full amounts of the loans to these shareholders remained outstanding. The relevant PRC operating subsidiary granted these loans without interest.

#### ***Share Subscription by JJ Media Investment Holding Limited***

As described in Item 5. Operating and Financial Review and Prospects — Share-based Compensation on page 63, on November 18, 2009, the Company issued 75 million ordinary shares to Jason Nanchun Jiang through JJ Media Investment Holding Limited, for proceeds of \$142,425,000.

#### ***Transactions with Entities Affiliated with Jimmy Wei Yu***

Jimmy Yu resigned his directorship in September 2009. For the year ended December 31, 2008 and the nine months ended September 30, 2009, office rentals paid to Multimedia Park Venture Capital, of which Mr. Yu was the CEO, amounted to \$870,718 and \$612,817, respectively.

#### ***Management Buy-in To Internet Division***

In January 2010, certain Allyes employees and management and directors and certain members of our management and directors entered into a definitive agreement with us and Allyes to purchase an aggregate 38% interest in Allyes from us. Pursuant to the terms of the agreements, the purchasing Allyes and Group management members paid an aggregate \$13.3 million for a 38% interest of Allyes. The Group performed a valuation of Allyes

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as of the closing date of the transaction and determined that the price paid to acquire the interest approximated fair value. The transaction was approved by all independent directors on the board. This transaction was part of initiatives we are taking to incentivize management to enhance the future business model of Allies and thereby to seek long term sustainable growth for the Group and investors.

### ***Sale of Shares by JJ Media Investment Holding Limited***

As described in Item 4. Information on the Company — History and Development of the Company elsewhere in this annual report, on September 13, 2010, Jason Nanchun Jiang, through JJ Media Investment Holding Limited, sold 8,100,000 of our ADSs at a price of \$18.90 per ADS.

### **Agreements among Us, Our PRC Operating Subsidiaries, Our PRC Operating Affiliates and Their Shareholders**

The following is a summary of the material provisions of these agreements. For more complete information you should read these agreements in their entirety. Directions on how to obtain copies of these agreements are provided in this annual report under “Item 10.H Additional Information — Documents on Display” and “Item 19. Exhibits”.

We have entered into a series of contractual arrangements with certain of our PRC operating affiliates and their respective shareholders, including contracts relating to the provision of services and certain shareholder rights and corporate governance matters if the PRC operating affiliates are owned by individuals or entities other than our 100% indirect subsidiaries or 100% consolidated operating affiliates. Each of our contractual arrangements with our PRC operating affiliates and their respective shareholders may only be amended with the approval of our audit committee or another independent body of our board of directors.

### ***Transfer of Ownership When Permitted By Law***

Pursuant to call option agreements, including in certain cases subsequent participation letters by our new PRC operating affiliates, by and among certain of our PRC operating subsidiaries, our PRC operating affiliates, and their respective shareholders, the shareholders of each of our relevant PRC operating affiliates, which shareholders are individuals or entities designated by us, such PRC operating affiliate and their respective shareholders have granted the relevant PRC operating subsidiary or its designee an exclusive option to purchase all or part of their equity interests in the relevant PRC operating affiliate, or all or part of the assets of the relevant PRC operating affiliate, in each case, at any time determined by the relevant PRC operating subsidiary and to the extent permitted by PRC law.

### ***Voting Arrangements***

Pursuant to voting rights proxy agreements and in certain cases subsequent participation letters by our new PRC operating affiliates, by and among certain of PRC operating subsidiaries, the PRC operating affiliates and their shareholders designated by us, the respective shareholders of the PRC operating affiliates have granted an individual designated by the PRC operating subsidiaries the right to appoint all of the directors and senior management of the PRC operating affiliates and all of their other voting rights as shareholders of the PRC operating affiliates, as provided under the articles of association of each such entity. Under the voting rights proxy agreement, there are no restrictions on the number, to the extent allowed under the respective articles of association of the PRC operating affiliates, or identity of those persons we can appoint as directors and officers.

### ***Equity Pledge Agreements***

Pursuant to equity pledge agreements and, in certain instances, subsequent participation letters by certain of our new PRC operating affiliates, by and among the relevant PRC operating subsidiaries, the relevant PRC operating affiliates, the relevant shareholder of the relevant PRC operating affiliates has pledged his equity interest in the relevant PRC operating affiliates, to certain of the PRC operating subsidiaries to secure his obligations under certain

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of the relevant contractual control agreements to which each is a party, such as the obligations of the relevant PRC operating affiliates under certain technical services agreements, trademark license agreements and exclusive services agreements, as the case may be, and the obligation of each shareholder of the PRC operating affiliates under the respective loan agreements between the relevant shareholder and PRC operating subsidiary, for the sole purpose of contributing or increasing the registered capital of the PRC operating affiliates, as the case may be and acquiring certain of our regional distributors, respectively. See “— Loans to the Shareholders of the PRC Operating Affiliates”. Under these equity pledge agreements, each relevant shareholder has agreed not to transfer, assign, pledge or otherwise dispose of their interest in the relevant PRC operating affiliate, without the prior written consent of the relevant PRC operating subsidiary. The equity pledge agreements may not be enforceable until we complete registration procedures with the local SAIC. See “Risk Factors— We use contractual arrangements with our PRC operating affiliates and their shareholders for a significant portion of our China operations, and uncertainties in the PRC legal system could limit our ability to enforce these contractual arrangements and thus our ability to conduct our business” elsewhere in this annual report.

### **C. Interests of Experts and Counsel**

Not applicable.

## **ITEM 8. FINANCIAL INFORMATION**

### **A. Consolidated Statements and Other Financial Information**

Please refer to Item 18 for a list of our annual consolidated financial statements filed as part of this annual report.

### **Legal Proceedings**

On or about November 27, 2007, Eastriver Partners, Inc. filed a purported class action lawsuit in the United States District Court for the Southern District of New York against us and the underwriters of our follow-on offering of November 2007. On or about December 21, 2007, Scott Bauer filed a purported class action lawsuit in the United States District Court for the Southern District of New York against us, certain of our officers and directors, and the underwriters of our follow-on offering of November 2007. Both complaints allege that our registration statement on Form F-1 on November 1, 2007, as amended, and the related prospectus contained inaccurate statements of material fact. On April 24, 2008, the court consolidated the Eastriver Partners, Inc. and Scott Bauer actions into an action captioned *In re Focus Media Holding Limited Litigation* and named Iron Workers Local No. 25 Pension Fund as lead plaintiff in the consolidated action. On June 23, 2008, Lead Plaintiff filed a consolidated amended complaint. Specifically, the complaints allege that we failed to disclose reduced gross margins in our Internet advertising business division due to acquisitions we made. The complaint filed by Scott Bauer also alleges that we issued a press release concerning our second quarter 2007 financial results that contained inaccurate statements of material fact. On September 5, 2008, we, certain of our officers and directors, and the underwriters filed a motion to dismiss the consolidated amended complaint. On November 5, 2008, the lead plaintiff filed its opposition to the motion to dismiss. A reply brief was filed on December 5, 2008. On March 29, 2010, the court issued an opinion granting our motion to dismiss. On March 30, 2010, the court entered a judgment dismissing the case. The plaintiffs filed a notice of appeal on April 29, 2010 appealing the judgment granting our motion to dismiss. We intend to continue to defend against these lawsuits vigorously as we believe we have meritorious defenses to the claims alleged. However, there can be no assurance that we will prevail in the suit on appeal and any adverse outcome of these cases could have a material adverse effect on our business or results of operations.

On February 11, 2008, Ying Ping, a PRC citizen, filed an arbitration application in Beijing with China International Economic and Trade Arbitration Commission (“CIETAC”) against us, requesting us, (i) to continue to perform a Share Purchase Agreement, dated as of March 20, 2008, between Ying Ping and the Company; (ii) to pay an overdue share purchase price in the amount of \$15.6 million and accrued interests thereof; and (iii) to bear their legal counsel fee in the amount of \$0.3 million and other relevant arbitration costs. The CIETAC accepted Ying Ping’s application for arbitration on February 24, 2009. On March 10, 2010, the arbitration was settled. As a result, we agreed to pay \$5.5 million to settle all the claims under the arbitration.

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Except as disclosed above, we are not currently a party to any material legal proceeding. From time to time, we may be subject to various claims and legal actions arising in the ordinary course of business.

### **Dividend Policy**

We have not previously declared any dividends. We currently intend to retain all available funds and any future earnings for use in the operation and expansion of our business and do not anticipate paying any cash dividends on our ordinary shares, or indirectly on our ADSs, for the foreseeable future.

Future cash dividends, if any, will be at the discretion of our board of directors and will depend upon our future operations and earnings, capital requirements and surplus, general financial condition, shareholders' interests, contractual restrictions and other factors as our board of directors may deem relevant. In addition, we can pay dividends only out of our profits or other distributable reserves. Any dividend we declare will be paid to the holders of ADSs, subject to the terms of the deposit agreement, to the same extent as holders of our ordinary shares, less the fees and expenses payable under the deposit agreement. Other distributions, if any, will be paid by the depositary to holders of our ADSs in any means it deems legal, fair and practical. Any dividend will be distributed by the depositary, in the form of cash or additional ADSs, to the holders of our ADSs. Cash dividends on our ADSs, if any, will be paid in U.S. dollars.

### **B. Significant Changes**

Since the date of the audited financial statements included as a part of this annual report, the following significant changes have occurred:

- On January 13, 2011, we purchased approximately 15,331,305 newly issued common shares of VisionChina at a price of US\$3.979 per share, equivalent to US\$3.979 per ADS. VisionChina Media's mass transportation mobile television network and our office, residential, hypermarket and supermarket television networks and theater network are highly complementary to each other, which we believe will offer opportunities to bring integrated media solutions and greater media value to advertisers. This minority investment in VisionChina Media is very much in line with our established development strategy of focusing on growing and investing in our core businesses while reducing our non-core businesses, and does not indicate any change in our existing stated direction;
- On March 7, 2011, as part of our continued effort to divest non-core business, we entered into a definitive equity transfer agreement, as amended on May 30, 2011, with GBL III Limited, an entity controlled by Goldman Sachs and entities (the "Management Entities") controlled by certain employees, directors and management members of us and Shanghai Hua Guang Chuanzhi OOH Ltd. ("OOH"), our outdoor media subsidiary, in which Goldman Sachs will acquire a 30% equity interest in OOH from us for US\$21 million, and the Management Entities will purchase an aggregate 19% equity interest in OOH from us for US\$13.3 million. GBL III Limited will be entitled to nominate one designee to OOH's board of directors and will extend a loan to the Management Entities under certain loan documents to be entered into between GBL III Limited and the Management Entities. Upon completion of these transactions, we will hold a 51% indirect equity interest in OOH. We believe this partial stake disposal allows us to recoup a majority of the investments in OOH while retaining upside potential in the business;
- In May 2011, we appointed Kit Leong Low as our executive director while Alex Yang resigned his positions as our director and general manager; and
- In the second half of 2011, we plan to make an initial investment of approximately \$1.5 million in exchange for a 15% stake in Enjoy China Technology Development Company Limited ("Enjoy"). At the same time, we also plan to enter into a service exchange contract with Enjoy. The service exchange contract will be negotiated on an arms-length basis and will be approved by our audit committee. We will have the first right of refusal to purchase an additional Enjoy stake in the event other shareholders decide to sell down their stake at an arms-length market price. We will also have the first right of refusal to participate in future rounds of financing by Enjoy. JJ Media Investment Holding Limited is also anticipated to have 34% stake in Enjoy. The remaining stakes are expected to be owned by two independent third parties.

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Please see the section titled “Material Contracts” of Item 10.C. “Additional information”.

### ITEM 9. THE OFFER AND LISTING

#### A. Offer and Listing Details

##### Market Price Information for Our American Depositary Shares

Our ADSs have been listed on the Nasdaq Global Market since July 13, 2005. Our ADSs trade under the symbol “FMCN”. From July 13, 2005 until April 10, 2007, each of our ADSs represented ten of our ordinary shares. Starting April 11, 2007, we reduced this ratio to five-to-one. All ADS trading prices on the Nasdaq Global Market set forth in this annual report, including historical trading and closing prices, have been adjusted to reflect the new ADS-to-share ratio of five-to-one. For the period from April 1, 2009 to June 7, 2011 the trading price of our ADSs on the Nasdaq Global Market has ranged from a low of US\$6.20 to a high of US\$37.58 per ADS. The following table provides the high and low trading prices for our ADSs on the Nasdaq Global Market for the five most recent full financial years, each full financial quarter for the two most recent full financial years and each month since November 2010.

	SALE PRICE	
	HIGH US\$	LOW US\$
<b>2006</b>	36.56	17.26
<b>2007</b>	66.30	33.50
<b>2008</b>	59.37	6.18
<b>2009</b>	10.35	4.84
First Quarter	17.88	12.26
Second Quarter	9.39	6.20
Third Quarter	11.54	7.37
Fourth Quarter	17.49	10.43
<b>2010</b>	27.27	12.26
First Quarter	18.72	12.26
Second Quarter	18.48	14.36
Third Quarter	24.68	14.94
Fourth Quarter	27.27	20.60
November	27.27	23.01
December	24.38	20.60
<b>2011 (through June 7)</b>	37.58	21.91
January	24.92	21.91
February	27.48	23.93
March	30.73	26.05
April	36.40	29.67
May	37.58	30.87
June (through June 7)	32.18	27.98

As of June 9, 2011, a total of 135,624,425 ADSs were outstanding. As of June 9, 2011, 678,593,715 shares were registered in the name of a nominee of Citibank, N.A., the depository under the deposit agreement. We have no further information as to shares held, or beneficially owned, by U.S. persons.

#### B. Plan of Distribution

Not applicable.

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**C. Markets**

Our ADSs, each representing five of our ordinary shares, have been trading on the Nasdaq Global Market since July 13, 2005 under the symbol “FMCN.”

**D. Selling Shareholders**

Not applicable.

**E. Dilution**

Not applicable.

**F. Expenses of the Issue**

Not applicable.

**ITEM 10. ADDITIONAL INFORMATION**

**A. Share Capital**

Not applicable.

**B. Memorandum and Articles of Association**

We incorporate by reference into this annual report the description of our amended and restated memorandum and articles of association contained in our Form F-1 registration statement (File No. 333-134714), as amended, first filed with the Commission on June 2, 2006.

**C. Material Contracts**

In the past three fiscal years, we have not entered into any material contracts other than in the ordinary course of business or other than those described below and elsewhere in this annual report.

***Management Buy-in To Allyes***

See Item 17.B—Related Party Transactions—Other Related Party Transactions.

***Sale of Allyes***

On July 30, 2010, we entered into a definitive share purchase agreement with Asteroid Media Holdings Limited, a wholly-owned investment vehicle of Silver Lake Management, L.L.C., or Silver Lake, pursuant to which we sold to Silver Lake our entire remaining 62% ownership interest in our former Internet business, Allyes Online Media Holdings Limited and its consolidated subsidiaries and affiliates, collectively Allyes. Upon the closing of the transaction on August 3, 2010, Silver Lake paid us US\$124 million, in exchange for the remaining equity ownership of Allyes held by Focus Media. Simultaneous with the signing of the agreement, certain other shareholders of Allyes also sold their interest in Allyes to Silver Lake, so that, following the series of transactions, Silver Lake owns a controlling stake in Allyes. We no longer hold any ownership interest in Allyes nor conduct any Internet advertising operations. We sold our remaining interest in Allyes to Silver Lake to maximize value for our shareholders as we believe that the interests of our business were best served by focusing on our core out-of-home advertising network and selling the Allyes business at a price that we believe provided excellent value to our company and our shareholders.

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### ***Share Repurchase from Fosun***

On September 20, 2010, we repurchased approximately 11,915,944 of our ADS for approximately \$236.7 million up to September 20, 2010, which included a privately negotiated repurchase of 9,523,810 ADSs from Fosun International for \$200 million.

### ***Share Purchase of VisionChina***

On January 13, 2011, we purchased approximately 15,331,305 newly issued common shares of VisionChina at a price of US\$3.979 per share, equivalent to US\$3.979 per ADS. VisionChina Media's mass transportation mobile television network and our office, residential, hypermarket and supermarket television networks and theater network are highly complementary to each other, which we believe will offer opportunities to bring integrated media solutions and greater media value to advertisers. This minority investment in VisionChina Media is very much in line with our established development strategy of focusing on growing and investing in our core businesses while reducing our non-core businesses, and does not indicate any change in our existing stated direction.

### ***Disposal of 49% Interest in Traditional Outdoor Billboard Division***

On March 7, 2011, as part of our continued effort to divest non-core business, we entered into a definitive equity transfer agreement, as amended on May 30, 2011 with GBL III Limited, an entity controlled by Goldman Sachs and entities (the "Management Entities") controlled by certain employees, directors and management members of us and Shanghai Hua Guang Chuanzhi OOH Ltd. ("OOH"), our outdoor media subsidiary, in which Goldman Sachs will acquire a 30% equity interest in OOH from us for US\$21 million, and the Management Entities will purchase an aggregate 19% equity interest in OOH from us for US\$13.3 million. GBL III Limited will be entitled to nominate one designee to OOH's board of directors and will extend a loan to the Management Entities under certain loan documents to be entered into between GBL III Limited and the Management Entities. Upon completion of these transactions, we will hold a 51% indirect equity interest in OOH. We believe this partial stake disposal allows us to recoup a majority of the investments in OOH while retaining upside potential in the business.

### ***Control Over Acquired Entities***

We have entered into a series of agreements with the subsidiaries, affiliated entities and nominee shareholders of such affiliated entities of each of Target Media, Framedia, Focus Media Wireless, Huaguang, Allyes and CGEN that provide us with effective control over each of their respective affiliated entities while enabling the their businesses to be consolidated with the respective Cayman holding company of each such business and with us. See "Item 4.C Information on Our Company—Organizational Structure— Our Corporate Structure and Contractual Arrangements" and "Item 7.B Major Shareholders and Related Party Transactions—Related Party Transactions — Agreements Among Us, Our PRC operating subsidiaries, Our PRC Operating Affiliates and Their Shareholders".

### ***Share Subscription by JJ Media Investment Holding Limited***

See Item 7.B—Related Party Transactions—Other Related Party Transactions.

## **D. Exchange Controls**

Our operating businesses are currently conducted in China and substantially all of our revenues and expenses are denominated in Renminbi. The People's Bank of China, or PBOC, sets and publishes daily a base exchange rate with reference primarily to the supply and demand of Renminbi against a basket of currencies in the market during the prior day. The PBOC also takes into account other factors, such as the general conditions existing in the international foreign exchange markets. Since 1994, the conversion of Renminbi into foreign currencies, including Hong Kong dollars and U.S. dollars, has been based on rates set by the PBOC, which are set daily based on the previous day's inter-bank foreign exchange market rates and current exchange rates in the world financial markets. From 1994 to July 20, 2005, the official exchange rate for the conversion of Renminbi to U.S. dollars was generally stable. Although PRC governmental policies were introduced in 1996 to reduce restrictions on the convertibility of Renminbi into foreign currency for current account items, conversion of Renminbi into foreign exchange for capital items, such as foreign direct investment, loans or securities, requires the approval of the State

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Administration for Foreign Exchange and other relevant authorities. On July 21, 2005, the PRC government introduced a managed floating exchange rate system to allow the value of the Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. On the same day, the value of the Renminbi appreciated by 2.0% against the U.S. dollar. Since then, the PRC government has made, and may in the future make, further adjustments to the exchange rate system. The PBOC announces the closing price of a foreign currency traded against the Renminbi in the inter-bank foreign exchange market after the closing of the market on each working day, and makes it the central parity for the trading against the Renminbi on the following working day.

In January and April 2005, the PRC State Administration of Foreign Exchange, or SAFE, issued two rules that require PRC residents to register with and receive approvals from SAFE in connection with their offshore investment activities. SAFE has announced that the purpose of these regulations is to achieve the proper balance of foreign exchange and the standardization of the cross-border flow of funds.

On October 21, 2005, SAFE issued the Notice on Issues Relating to the Administration of Foreign Exchange in Fund-raising and Reverse Investment Activities of Domestic Residents Conducted via Offshore Special Purpose Companies, or Notice 75, which became effective as of November 1, 2005. Notice 75 replaced the two rules issued by SAFE in January and April 2005 mentioned above.

According to Notice 75:

- prior to establishing or assuming control of an offshore company for the purpose of financing that offshore company with assets or equity interests in an onshore enterprise in the PRC, each PRC resident, whether a natural or legal person, must complete the overseas investment foreign exchange registration procedures with the relevant local SAFE branch;
- an amendment to the registration with the local SAFE branch is required to be filed by any PRC resident that directly or indirectly holds interests in that offshore company upon either (1) the injection of equity interests or assets of an onshore enterprise to the offshore company, or (2) the completion of any overseas fund raising by such offshore company; and
- an amendment to the registration with the local SAFE branch is also required to be filed by such PRC resident when there is any material change involving a change in the capital of the offshore company, such as (1) an increase or decrease in its capital, (2) a transfer or swap of shares, (3) a merger or division, (4) a long term equity or debt investment, or (5) the creation of any security interests over the relevant assets located in China.

Moreover, Notice 75 applies retroactively. As a result, PRC residents who have established or acquired control of offshore companies that have made onshore investments in the PRC in the past are required to complete the relevant overseas investment foreign exchange registration procedures by March 31, 2006. Under the relevant rules, failure to comply with the registration procedures set forth in Notice 75 may result in restrictions being imposed on the foreign exchange activities of the relevant onshore company, including the payment of dividends and other distributions to its offshore parent or affiliate and the capital inflow from the offshore entity, and may also subject relevant PRC residents to penalties under PRC foreign exchange administration regulations.

These regulations will affect our financial status, business operations or strategies. For example, as a Cayman Islands company, and therefore a foreign entity, if Focus Media Holding purchases the assets or equity interest of a company owned by PRC residents in exchange for our equity interests, such PRC residents will be subject to the registration procedures described in Notice 75. Moreover, PRC residents who are beneficial holders of our shares are required to register with SAFE in connection with their investment in us. Our present or future PRC subsidiaries' ability to conduct foreign exchange activities, such as remittance of dividends and foreign-currency-denominated borrowings, may be subject to compliance with such SAFE registration requirements by relevant PRC residents, over whom we have no control. In addition, we cannot assure you that any such PRC residents have completed or will complete the necessary approval and registration procedures required by the SAFE regulations. We require all the shareholders in Focus Media Holding who are PRC residents or have PRC residents as their

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beneficial owners to comply with any SAFE registration requirements, but we have no control over either our beneficial owners or the outcome of such registration procedures. As our WFOE operation subsidiaries distribute dividends to their overseas parent companies from time to time, we may be penalized by SAFE if we are found that any of such distribution is made before our beneficial owners, who are PRC residents, fully complete their registrations and filings with SAFE. Such uncertainties may restrict our ability to implement our acquisition strategy and adversely affect our financial status, business and prospects.

### **E. Taxation**

#### **Cayman Islands Taxation**

The following discussion of the material Cayman Islands federal income tax consequences of an investment in our ordinary shares or ADSs is based upon laws and relevant interpretations thereof in effect as of the date of this annual report, all of which are subject to change, possibly with retroactive effect. This discussion does not deal with all possible tax consequences relating to an investment in our ADSs, such as the tax consequences under state, local and other tax laws. To the extent that the discussion relates to matters of Cayman Islands tax law, it represents the opinion of Conyers Dill & Pearman, our special Cayman Islands counsel.

The Cayman Islands currently levies no taxes on individuals or corporations based upon profits, income, gains or appreciation and there is no taxation in the nature of inheritance tax or estate duty or withholding tax applicable to us or to any holder of ADS, or ordinary shares. There are no other taxes likely to be material to us levied by the Government of the Cayman Islands except for stamp duties which may be applicable on instruments executed in, or after execution brought within the jurisdiction of the Cayman Islands. No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands. The Cayman Islands is not party to any double taxation treaties. There are no exchange control regulations or currency restrictions in the Cayman Islands.

Pursuant to Section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, we have obtained an undertaking from the Governor-in-Council:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciation shall apply to us or our operations; and
- (2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on the shares, debentures or other obligations of the Company.

The undertaking for us is for a period of twenty years from May 3, 2005.

#### **People's Republic of China Taxation**

The newly enacted PRC Enterprise Income Tax Law, or the EIT Law, and the implementation regulations for the EIT Law issued by the PRC State Council, became effective as of January 1, 2008. 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. Although substantially all of our operational management is currently based in the PRC, it is unclear whether PRC tax authorities would require (or permit) us to be treated as a PRC resident enterprise.

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 such dividends

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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 ordinary shares or ADSs, or the gain you may realize from the transfer of our ordinary shares or ADSs, would be treated as income derived from sources within the PRC and be subject to PRC tax. It is also unclear whether, if we are considered a PRC “resident enterprise,” holders of our ordinary shares or ADSs might be able to claim the benefit of income tax treaties entered into between China and other countries.

### **United States Federal Income Taxation**

The following discussion describes certain United States federal income tax consequences of the ownership of our ordinary shares and ADSs as of the date hereof. Except where noted, it deals only with ordinary shares and ADSs held as capital assets. This discussion does not represent a detailed description of the United States federal income tax consequences applicable to you if you are subject to special treatment under the United States federal income tax laws, including if you are:

- a bank;
- a dealer in securities or currencies;
- a financial institution;
- a regulated investment company;
- a real estate investment trust;
- an insurance company;
- a tax-exempt organization;
- a person holding our ordinary shares or ADSs as part of a hedging, integrated or conversion transaction, a constructive sale or a straddle;
- a trader in securities that has elected the mark-to-market method of accounting for your securities;
- a person liable for alternative minimum tax;
- a United States expatriate or a person treated as a resident of more than one country;
- a person who owns or is deemed to own 10% or more of our voting stock;
- a partnership or other pass through entity for United States federal income tax purposes or a person holding our ordinary shares or ADSs through any such entity; or
- a person whose “functional currency” is not the United States dollar.

Furthermore, the discussion below is based upon the provisions of the Internal Revenue Code of 1986, as amended (the “Code”), and regulations, rulings and judicial decisions thereunder as of the date hereof, and such authorities may be repealed, revoked or modified so as to result in United States federal income tax consequences different from those discussed below. In addition, this summary is based, in part, upon representations made by the depository to us and assumes that the deposit agreement, and all other related agreements, will be performed in accordance with their terms. **IF YOU ARE CONSIDERING THE PURCHASE, OWNERSHIP OR DISPOSITION OF OUR ORDINARY SHARES OR ADSs, YOU SHOULD CONSULT YOUR OWN TAX ADVISORS CONCERNING THE UNITED STATES FEDERAL INCOME TAX CONSEQUENCES TO**

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### **YOU IN LIGHT OF YOUR PARTICULAR SITUATION AS WELL AS ANY CONSEQUENCES ARISING UNDER THE LAWS OF ANY OTHER TAXING JURISDICTION.**

As used herein, the term “United States Holder” means a beneficial holder of an ordinary share or ADS that is for United States federal income tax purposes:

- an individual citizen or resident of the United States;
- a corporation (or other entity treated as a corporation for United States federal income tax purposes) created or organized in or under the laws of the United States, any state thereof or the District of Columbia;
- an estate the income of which is subject to United States federal income taxation regardless of its source; or
- a trust which either (1) is subject to the primary supervision of a court within the United States and one or more United States persons have the authority to control all substantial decisions of the trust or (2) has a valid election in effect under applicable United States Treasury regulations to be treated as a United States person.

If a partnership holds our ordinary shares or ADSs, the tax treatment of a partner will depend upon the status of the partner and the activities of the partnership. If you are a partner of a partnership holding our ordinary shares or ADSs, you should consult your tax advisors.

#### **ADSs**

If you hold ADSs, for United States federal income tax purposes, you generally will be treated as the owner of the underlying ordinary shares that are represented by such ADSs. Accordingly, deposits or withdrawals of ordinary shares for ADSs will not be subject to United States federal income tax.

The U.S. Treasury has expressed concerns that intermediaries in the chain of ownership between the holder of an ADS and the issuer of the security underlying the ADS may be taking actions that are inconsistent with the claiming of foreign tax credits for United States Holders of ADSs. Such actions would also be inconsistent with the claiming of the reduced rate of tax, described below, applicable to dividends received by certain non-corporate holders. Accordingly, the creditabilities of PRC taxes, if any, and the availability of the reduced tax rate for dividends received by certain non-corporate holders, each described below, could be affected by actions taken by intermediaries in the chain of ownership between the holder of an ADS and our company.

#### ***Taxation of Dividends***

Subject to the discussion below under “Passive Foreign Investment Companies”, the gross amount of distributions on our ordinary shares or ADSs (including amounts withheld to reflect PRC withholding taxes) will be taxable as dividends, to the extent paid out of our current or accumulated earnings and profits, as determined under United States federal income tax principles. Such income will be includable in your gross income as ordinary income on the day actually or constructively received by you, in the case of ordinary shares, or by the depository, in the case of ADSs. Such dividends will not be eligible for the dividends received deduction allowed to corporations under the Code. With respect to non-corporate United States investors, certain dividends received in taxable years beginning before January 1, 2013 from a qualified foreign corporation may be subject to reduced rates of taxation. A foreign corporation is treated as a qualified foreign corporation with respect to dividends paid by that corporation on shares (or ADSs backed by such shares) that are readily tradable on an established securities market in the United States. United States Treasury Department guidance indicates that our ADSs, which are listed on the Nasdaq Global Market, but not our ordinary shares, are readily tradable on an established securities market in the United States. Thus, we believe that dividends we pay on our ordinary shares that are represented by ADSs, but not our ordinary shares that are not so represented, currently meet such conditions required for the reduced tax rates. There can be no assurance that our ADSs will be considered readily tradable on an established securities market in later years. A

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qualified foreign corporation also includes a foreign corporation that is eligible for the benefits of certain income tax treaties with the United States. In the event that we are deemed to be a PRC “resident enterprise” under PRC tax law (see discussion under “Taxation—People’s Republic of China Taxation”), we may be eligible for the benefits of the income tax treaty between the United States and the PRC, and if we are eligible for such benefits, dividends we pay on our ordinary shares, regardless of whether such shares are represented by ADSs, would be subject to the reduced rates of taxation. Non-corporate holders that do not meet a minimum holding period requirement during which they are not protected from the risk of loss or that elect to treat the dividend income as “investment income” pursuant to section 163(d)(4) of the Code will not be eligible for the reduced rates of taxation regardless of our status as a qualified foreign corporation. In addition, the rate reduction will not apply to dividends if the recipient of a dividend is obligated to make related payments with respect to positions in substantially similar or related property. This disallowance applies even if the minimum holding period has been met. You should consult your own tax advisors regarding the application of this legislation to your particular circumstances.

In the event that we are deemed to be a PRC “resident enterprise” under PRC tax law (see discussion under “Taxation—People’s Republic of China Taxation”), you may be subject to PRC withholding taxes on dividends paid to you with respect to our ordinary shares or ADSs. In that case, however, you may be able to obtain a reduced rate of PRC withholding taxes under the treaty between the United States and the PRC if certain requirements are met. In addition, subject to certain conditions and limitations, PRC withholding taxes on dividends, if any, may be treated as foreign taxes eligible for credit against your United States federal income tax liability. For purposes of calculating the foreign tax credit, dividends paid to you with respect to our ordinary shares or ADSs will be treated as income from sources outside the United States and will generally constitute passive category income.

Furthermore, in certain circumstances, if you have held the ordinary shares or ADSs for less than a specified minimum holding period during which you are not protected from risk of loss, or are obligated to make payments related to the dividends, you will not be allowed a foreign tax credit for any PRC withholding taxes imposed on dividends paid on the ordinary shares or ADSs. The rules governing the foreign tax credit are complex. You are urged to consult your tax advisors regarding the availability of the foreign tax credit under your particular circumstances.

To the extent that the amount of any distribution exceeds our current and accumulated earnings and profits for a taxable year, as determined under United States federal income tax principles, the distribution will first be treated as a tax-free return of capital, causing a reduction in the adjusted basis of our ordinary shares or ADSs (thereby increasing the amount of gain, or decreasing the amount of loss, to be recognized by you on a subsequent disposition of our ordinary shares or ADSs), and the balance in excess of adjusted basis will be taxed as capital gain recognized on a sale or exchange. However, we do not expect to keep earnings and profits in accordance with United States federal income tax principles. Therefore, you should expect that a distribution will generally be treated as a dividend (as discussed above).

### ***Passive Foreign Investment Companies***

We operate an active advertising business in China and based on the past and projected composition of our income and valuation of our assets, including goodwill, we believe we were not a passive foreign investment company for 2010, we do not expect to be a passive foreign investment company (“PFIC”), for 2011, and we do not expect to become one in the future, although there can be no assurance in this regard because the analysis depends on factual determinations.

We will be a PFIC for any taxable year in which:

- at least 75% of our gross income is passive income, or
- at least 50% of the value (determined on a quarterly basis) of our assets is attributable to assets that produce or are held for the production of passive income.

For this purpose, passive income includes dividends, interest, royalties and rents (other than royalties and rents derived in the active conduct of a trade or business and not derived from a related person). If we own at least

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25% (by value) of the stock of another corporation, we will be treated, for purposes of the PFIC tests, as owning our proportionate share of the other corporation's assets and receiving our proportionate share of the other corporation's income. However, it is not entirely clear how the contractual arrangements between us and our consolidated variable interest entities will be treated for purposes of the PFIC rules. If it is determined that we do not own the stock of our consolidated variable interest entities for United States federal income tax purposes (for instance, because the relevant PRC authorities do not respect these arrangements), we would likely be treated as a PFIC.

The determination of whether we are a PFIC is made annually for each taxable year of our company. Accordingly, it is possible that we may become a PFIC in the current or any future taxable year due to changes in our asset or income composition. We could become a PFIC, for example though a decrease in the price of our ADSs (resulting in a decrease in the value of our goodwill, an active asset). If we are a PFIC for any taxable year during which you hold our ordinary shares or ADSs, you will be subject to special tax rules discussed below.

If we are a PFIC for any taxable year during which you hold our ordinary shares or ADSs, you will be subject to special tax rules with respect to any "excess distribution" received and any gain realized from a sale or other disposition, including a pledge, of ordinary shares or ADSs. Distributions received in a taxable year that are greater than 125% of the average annual distributions received during the shorter of the three preceding taxable years or your holding period for the ordinary shares or ADSs will be treated as excess distributions. Under these special tax rules:

- the excess distribution or gain will be allocated ratably to each day in your holding period for the ordinary shares or ADSs,
- 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 applicable to underpayments of tax will be imposed on the resulting tax attributable to each such year.

In addition, non-corporate United States Holders will not be eligible for reduced rates of taxation on any dividends received from us in taxable years beginning before January 1, 2013, if we are a PFIC in the taxable year in which such dividends are paid or in the preceding taxable year. You will be required to file Internal Revenue Service Form 8621 if you hold our ordinary shares or ADSs in any year in which we are classified as a PFIC.

If we are a PFIC for any taxable year during which you hold our ordinary shares or ADSs and any of our non-United States subsidiaries is also a PFIC, a United States Holder would be treated as owning a proportionate amount (by value) of the shares of the lower-tier PFIC for purposes of the application of these rules. You are urged to consult your tax advisors about the application of the PFIC rules to any of our subsidiaries.

In certain circumstances, in lieu of being subject to the excess distribution rules discussed above, you may make an election to include gain on the stock of a PFIC as ordinary income under a mark-to-market method provided that such stock is regularly traded on a qualified exchange. Under current law, the mark-to-market election may be available to holders of ADSs because the ADSs are listed on the Nasdaq Global Market, which constitutes a qualified exchange as designated in the Code, although there can be no assurance that the ADSs will be "regularly traded" for purposes of the mark-to-market election.

If you make an effective mark-to-market election, you will include in each year as ordinary income the excess of the fair market value of your ADSs at the end of the year over your adjusted tax basis in the ADSs. You will be entitled to deduct as an ordinary loss each year the excess of your adjusted tax basis in the ADSs over their fair market value at the end of the year, but only to the extent of the net amount previously included in income as a result of the mark-to-market election. If you make an effective mark-to-market election, any gain you recognize upon the sale or other disposition of your ADSs, will be treated as ordinary income and any loss will be treated as ordinary loss, but only to the extent of the net amount previously included in income as a result of the mark-to-market election.

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Your adjusted tax basis in the ADSs will be increased by the amount of any income inclusion and decreased by the amount of any deductions under the mark-to-market rules. If you make a mark-to-market election it will be effective for the taxable year for which the election is made and all subsequent taxable years unless the ADSs are no longer regularly traded on a qualified exchange or the Internal Revenue Service consents to the revocation of the election. You are urged to consult your tax advisor about the availability of the mark-to-market election, and whether making the election would be advisable in your particular circumstances.

Alternatively, you can sometimes avoid the rules described above by electing to treat us as a “qualified electing fund” under section 1295 of the Code. This option is not available to you because we do not intend to comply with the requirements necessary to permit you to make this election.

You are urged to consult your tax advisors concerning the United States federal income tax consequences of holding our ordinary shares or ADSs if we are considered a PFIC in any taxable year.

### ***Taxation of Capital Gains***

Subject to the discussion above under “Passive Foreign Investment Companies”, for United States federal income tax purposes, you will recognize taxable gain or loss on any sale or exchange of our ordinary shares or ADSs in an amount equal to the difference between the amount realized for the ordinary shares or ADSs and your adjusted tax basis in the ordinary shares or ADSs. Your adjusted tax basis will generally equal the amount you paid for the ordinary shares or ADSs. Any gain or loss you recognize will generally be capital gain or loss. Capital gains of individuals derived with respect to capital assets held for more than one year are eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations. Any gain or loss recognized by you will generally be treated as United States source gain or loss. However, in the event that we are deemed to be a PRC “resident enterprise” under PRC tax law (see discussion under “Taxation—“People’s Republic of China Taxation”) and PRC tax were imposed on any gain, and if you are eligible for the benefits of the income tax treaty between the United States and the PRC, you may elect to treat such gain as PRC source gain. If you are not eligible for the benefits of the treaty or you fail to make the election to treat any gain as PRC source, then you may not be able to use the foreign tax credit arising from any PRC tax imposed on the disposition of our ADSs or ordinary shares unless such credit can be applied (subject to applicable limitations) against tax due on other income derived from foreign sources. You are urged to consult your tax advisors regarding the tax consequences if a foreign withholding tax is imposed on a disposition of ordinary shares or ADSs, including the availability of the foreign tax credit under your particular circumstances.

### ***Information Reporting and Backup Withholding***

Information reporting will apply to dividends in respect of our ordinary shares or ADSs and the proceeds from the sale, exchange or redemption of our ordinary shares or ADSs that are paid to you within the United States (and in certain cases, outside the United States), unless you are an exempt recipient such as a corporation. A backup withholding tax may apply to such payments if you fail to provide a taxpayer identification number or certification of other exempt status or fail to report in full dividend and interest income.

Any amounts withheld under the backup withholding rules will be allowed as a refund or a credit against your United States federal income tax liability provided the required information is timely furnished to the Internal Revenue Service.

Pursuant to the Hiring Incentives to Restore Employment Act, an individual United States Holder may be required to submit to the Internal Revenue Service certain information reporting with respect to his or her beneficial ownership of our ADSs or ordinary shares, unless such ADSs were held on his or her behalf by a United States financial institution. This new law also imposes penalties if an individual United States Holder is required to submit such information to the Internal Revenue Service and fails to do so.

PROSPECTIVE PURCHASERS SHOULD CONSULT WITH THEIR OWN TAX ADVISORS REGARDING THE APPLICATION OF THE UNITED STATES FEDERAL INCOME TAX LAWS TO THEIR PARTICULAR SITUATIONS AS WELL AS ANY ADDITIONAL TAX CONSEQUENCES RESULTING FROM

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PURCHASING, HOLDING OR DISPOSING OF ORDINARY SHARES OR ADSS, INCLUDING THE APPLICABILITY AND EFFECT OF THE TAX LAWS OF ANY STATE, LOCAL OR FOREIGN JURISDICTION, INCLUDING ESTATE, GIFT OR INHERITANCE LAWS.

### **F. Dividends and Paying Agents**

Not applicable.

### **G. Statement by Experts**

Not applicable.

### **H. Documents on Display**

We have filed this annual report on Form 20-F, including exhibits, with the SEC. As allowed by the SEC, in Item 19 of this annual report, we incorporate by reference certain information we filed with the SEC. This means that we can disclose important information to you by referring you to another document filed separately with the SEC. The information incorporated by reference is considered to be part of this annual report.

We have previously filed with the Commission our registration statements on Form F-1 and F-3ASR and prospectuses and prospectus supplements under the Securities Act of 1933, as amended, with respect to our ADSs.

The SEC also maintains a website that contains reports, proxy statements and other information about issuers, such as us, who file electronically with the SEC. The address of that website is <http://www.sec.gov>. The information on that website is not a part of this annual report.

We will furnish to Citibank, N.A., as depository of our ADSs, our annual reports. When the depository receives these reports, it will upon our request promptly provide them to all holders of record of ADSs. We will also furnish the depository with all notices of shareholders' meetings and other reports and communications in English that we make available to our shareholders. The depository will make these notices, reports and communications available to holders of ADSs and will upon our request mail to all holders of record of ADSs the information contained in any notice of a shareholders' meeting it receives.

We are subject to periodic reporting and other informational requirements of the Exchange Act, as applicable to foreign private issuers. Accordingly, we are required to file reports, including annual reports on Form 20-F, and other information with the SEC. As a foreign private issuer, we are exempt from the rules of the Exchange Act prescribing the furnishing and content of proxy statements to shareholders under the federal proxy rules contained in Sections 14(a), (b) and (c) of the Exchange Act, and our executive officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act. The registration statements, reports and other information so filed can be inspected and copied at the public reference facilities maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549. You can request copies of these documents upon payment of a duplicating fee, by writing to the SEC. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference rooms.

### **I. Subsidiary Information**

Not applicable.

## **ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

### ***Interest Rate Risk***

Our exposure to interest rate risk primarily relates to the interest income generated by excess cash, which is mostly held in interest-bearing bank deposits. We have not used derivative financial instruments in our investment portfolio. Interest earning instruments carry a degree of interest rate risk. We have not been exposed nor do we

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anticipate being exposed to material risks due to changes in market interest rates. However, our future interest income may fall short of expectations due to changes in market interest rates.

### ***Foreign Currency Risk***

Substantially all our revenues and expenses are denominated in Renminbi. We have not had any material foreign exchange gains or losses. Although in general, our exposure to foreign exchange risks should be limited, the value of your investment in our ADSs will be affected by the foreign exchange rate between U.S. dollars relative to the Renminbi because the value of our business is effectively denominated in Renminbi, while the ADSs will be traded in U.S. dollars. Furthermore, a decline in the value of the Renminbi could reduce the U.S. dollar equivalent of the value of the earnings from, and our investments in, our subsidiaries and PRC-incorporated affiliates in China. In addition, appreciation or depreciation in the value of the Renminbi relative to the U.S. dollar would affect our reported financial results in U.S. dollar terms. See “Item 3.B. — Risk Factors — Risks Relating to the People’s Republic of China — Fluctuations in exchange rates could result in foreign currency exchange losses”.

### **Inflation**

In recent years, China has not experienced significant inflation, and thus inflation has not had a significant effect on our business historically. According to the National Bureau of Statistics of China, the change in the Consumer Price Index in China was 5.9%, negative 0.7% and 3.3% in 2008, 2009 and 2010, respectively.

## **ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES**

### **A. Debt securities**

Not applicable.

### **B. Warrants and Rights**

Not applicable.

### **C. Other securities**

Not applicable.

### **D. American Depositary Shares**

Fees and Charges Our ADS holders May Have to Pay

Citi (Nominees) Limited, the depository of our ADS program, collects its fees for delivery and surrender of ADSs directly from investors depositing shares or surrendering ADSs for the purpose of withdrawal or from intermediaries acting for them. The depository collects fees for making distributions to investors by deducting those fees from the amounts distributed or by selling a portion of distributable property to pay the fees. The depository may collect its annual fee for depository services by deductions from cash distributions or by directly billing investors or by charging the book-entry system accounts of participants acting for them. The depository may generally refuse to provide fee-attracting services until its fees for those services are paid.

## **PART II**

## **ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES**

None of these events occurred in any of fiscal 2008, 2009 and 2010.

## ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

### A. Modifications of Rights

Upon the closing of our acquisition of Target Media, we amended our shareholder's agreement to grant the former shareholders of Target Media registration rights with regard to the Focus Media ordinary shares we issued to such former Target Media shareholders. Such shareholders are now entitled to demand registration rights and piggyback registration rights under our amended and restated shareholders agreement. At any time after six months following the closing of our initial public offering,

- any of our shareholders representing a majority of the ordinary shares converted from the Series A convertible redeemable preference shares;
- any of our shareholders representing a majority of the ordinary shares converted from the Series B convertible redeemable preference shares;
- any of our shareholders representing 20% of the ordinary shares converted from the Series C convertible redeemable preference shares; and
- since the closing of our acquisition of Target Media, any of the former Target Media shareholders representing 25% of the ordinary shares issued to them as a group as consideration in connection with our acquisition of Target Media;

may require us to effect the registration, on a form other than Form F-3, of at least 25% of the registrable securities then outstanding. We are not obligated to take any action to effect any such registration on more than two occasions each on behalf of each group of shareholders described above or more than once in any six month period or within six months of any other public offering we conduct in which they had the opportunity to participate without the exclusion of any shares eligible for registration under the shareholders agreement.

In addition, holders of any of our registrable securities may require us to effect a registration statement on Form F-3 (or any successor form or any comparable form for a registration in a jurisdiction other than the United States) for a public offering of registrable securities so long as the reasonably anticipated aggregate price to the public (net of selling expenses) would be at least \$1,000,000 and we are entitled to use Form F-3 (or a comparable form) for such offering. Holders of registrable securities may demand a registration on Form F-3 on unlimited occasions, although we are not obligated to effect more than once in any six month period if within six months of any other public offering we conduct in which they had the opportunity to participate without the exclusion of any shares eligible for registration under the shareholders agreement.

Upon the closing of our acquisition of Allyes, we granted the former shareholders of Allyes registration rights with regard to the Focus Media ordinary shares we issued to them. Under the terms of our agreement with the former Allyes shareholder:

- prior to September 18, 2009 or prior to the time when the shares proposed to be sold by the former Allyes shareholders may be sold in a 90-day period under Rule 144, any former Allyes shareholders holding 3 million of our ordinary shares may request that we effect the registration of the ordinary shares held by them using our existing registration statement on Form F-3ASR, provided that if the offering is part of an underwritten offering, the expected proceeds from such an offering would not be less than US\$40 million; we are obligated to effect up to three such registrations; and
- certain of the former Allyes shareholders, on a date at least 150 days and no more than 330 days following March 28, 2007, may request that we effect the registration of the ordinary shares held by them using our existing registration statement on Form F-3ASR; we are obligated to effect only one such registration.

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We are not obligated to take any action to effect any such registration more than once in any six month period or within six months of any other public offering we conduct in which they had the opportunity to participate without the exclusion of any shares eligible for registration under the shareholders agreement.

On April 11, 2007, we effected a change of the ratio of our ADSs to ordinary shares from one (1) ADS representing ten (1) ordinary shares to one (1) ADS representing five (5) ordinary shares.

### **B. Use of Proceeds**

Not applicable.

## **ITEM 15. CONTROLS AND PROCEDURES**

### **Disclosure Controls and Procedures**

Under the supervision and with the participation of our management, including our chief executive officer and our chief financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(f) promulgated under the Securities Exchange Act of 1934, as amended. Based on this evaluation, our chief executive officer and chief financial officer concluded that, as of December 31, 2010, our disclosure controls and procedures were effective.

### **Management's Annual Report on Internal Control Over Financial Reporting.**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended, for our company. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements in accordance with generally accepted accounting principles and includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of a company's assets, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with generally accepted accounting principles, and that a company's receipts and expenditures are being made only in accordance with authorizations of a company's management and directors, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of a company's assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, a system of internal control over financial reporting can provide only reasonable assurance with respect to consolidated financial statement preparation and presentation and may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As required by Section 404 of the Sarbanes-Oxley Act of 2002 and related rules promulgated by the Securities and Exchange Commission, our management, including our new chief financial officer Kit Leong Low who was appointed in January 2010, assessed the effectiveness of internal control over financial reporting as of December 31, 2010 using the criteria set forth in the report "Internal Control—Integrated Framework" published by the Committee of Sponsoring Organizations of the Treadway Commission (known as COSO). Based on this evaluation, management concluded that our internal control over financial reporting was effective as of December 31, 2010.

The effectiveness of internal control over financial reporting as of December 31, 2010 has been audited by Deloitte Touche Tohmatsu CPA Ltd., an independent registered public accounting firm, who has also audited our consolidated financial statements for the year ended December 31, 2010.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Focus Media Holding Limited

We have audited the internal control over financial reporting of Focus Media Holding Limited and subsidiaries (the “Group”) as of December 31, 2010, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Group’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Group’s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company’s internal control over financial reporting is a process designed by, or under the supervision of, the company’s principal executive and principal financial officers, or persons performing similar functions, and effected by the company’s board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Group maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2010 of the Group and our report dated June 20, 2011 expressed an unqualified opinion on those financial statements.

/s/ DELOITTE TOUCHE TOHMATSU CPA LTD.

Shanghai, China

June 20, 2011

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**ITEM 16.**

**ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT**

Our Board of Directors has determined that Daqing Qi, who is an independent director, qualifies as an audit committee financial expert as defined in Item 16A of the instruction to Form 20-F.

**ITEM 16B. CODE OF ETHICS**

Our board of directors adopted a code of business conduct and ethics on April 16, 2005, which is applicable to our directors, officers and employees. Our code of business conduct and ethics is publicly available on our website at: [http://nocache.corporate-ir.net/media\\_files/irol/19/190067/corp\\_gov/Conduct\\_and\\_Ethics.pdf](http://nocache.corporate-ir.net/media_files/irol/19/190067/corp_gov/Conduct_and_Ethics.pdf).

**ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The following table sets forth the aggregate fees by categories specified below in connection with certain professional services rendered by Deloitte Touche Tohmatsu CPA Ltd., our independent registered public accounting firm, for the years indicated.

	<b>For the year ended December 31,</b>	
	<b>2009</b>	<b>2010</b>
	<b>(in thousands, US dollar)</b>	
Audit Fees (1)	\$ 1,260	\$ 1,400
Audit-related Fees (2)	174	131
Tax Fees (3)	364	150
All Other Fees (4)	—	—
Total	<u>\$ 1,798</u>	<u>\$ 1,681</u>

- (1) Audit fees consist of fees associated with the annual audit, the reviews of our quarterly financial statements and statutory audits required internationally. They also include fees billed for those services that are normally provided by the independent accountants in connection with statutory and regulatory filings.
- (2) Audit-related fees consist of fees billed for assurance and related services that are reasonably related to the performance of the audit or review of our financial statements but not described in footnote (1) above. These services include consultations concerning financial accounting and reporting standards and review of capitalization of retained earnings, financial covenants in loan agreements, and our affiliates' financial information.
- (3) Tax fees include fees billed for professional services rendered by Deloitte Touche Tohmatsu CPA Ltd., primarily in connection with our transfer study activities.
- (4) All other fees comprise fees for all other services provided by Deloitte Touche Tohmatsu CPA Ltd., other than those services covered in footnotes (1) to (3) above.

Prior to forming an audit committee, our board of directors is responsible for the oversight of our independent registered public accounting firm. The policy of our board of directors is to pre-approve all audit and non-audit services provided by Deloitte Touche Tohmatsu CPA Ltd., including audit services, audit-related services, tax services and other services, as described above.

**ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES**

None.

[Table of Contents](#)**ITEM 16E. PURCHASE OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS**

Period	Total Number of ADSs Repurchased	Average Price Paid per ADS(2)	Total Number of ADSs Purchased as Part of Publicly Announced Program(1)	Approximate Dollar Value of ADSs that May Yet Be Purchased Under the Program
August 2008	680,973	\$29.35	680,973	\$ 80,002,102
September 2008	405,654	\$24.63	1,086,627	\$ 70,002,136
October 2008	501,715	\$19.91	1,588,342	\$ 60,002,149
November 2008	1,000,000	\$ 7.48	2,588,342	\$ 52,499,789
May 2010	2,392,134	\$15.36	2,393,134	\$163,255,127
September 2010	9,523,810	\$21.00	11,915,944	\$ 63,255,117
December 2010	134,842	\$22.25	12,050,786	\$ 60,255,139

- (1) We announced a share repurchase program approved by our board of directors on July 16, 2008. Under the terms of the approved program, we may repurchase up to US\$100 million worth of our issued and outstanding ADSs. The repurchases have been, made from time to time on the open market at prevailing market prices and have been made subject to restrictions relating to volume, price and timing. This share repurchase program was implemented over the course of 12 months starting from July 2008, in a manner consistent with market conditions and the interest of the shareholders. Our board of directors reviewed the share repurchase program periodically, and may authorize adjustment of its terms and size accordingly. At the end of this program, we cumulatively repurchased 2,588,342 ADSs in the amount of US\$47.5 million.

On February 2, 2010, we announced that our board of directors has approved a share repurchase program. Under the terms of the approved program, we may repurchase up to US\$200 million worth of our issued and outstanding ADSs. The repurchases will be made from time to time on the open market at prevailing market prices or in block trades. The authorized repurchase amount was subsequently increased to US\$300 million in August 2010. The purchases will be made subject to restrictions relating to volume, price and timing. The timing and extent of any purchases will depend upon market conditions, the trading price of its ADSs and other factors. We expect to implement this share repurchase program over the course of the next 12 months, effective immediately, in a manner consistent with market conditions and the interest of the shareholders and in compliance with the company's securities trading policy. Focus Media's board of directors will review the share repurchase program periodically, and may authorize adjustment of its terms and size accordingly. Focus Media plans to fund repurchases made under this program from its available cash balance.

- (2) The average price paid per ADS is calculated using the execution price for each repurchase excluding commissions paid to brokers.

**ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT**

None .

**ITEM 16G. CORPORATE GOVERNANCE**

We are a "foreign private issuer" (as such term is defined in Rule 3b-4 under the Exchange Act), and our ADSs, each representing five ordinary shares, are listed on the Nasdaq Global Market, or Nasdaq. Under Section 5615 of the Nasdaq Listing Rules, Nasdaq-listed companies that are foreign private issuers are permitted to follow home country practice in lieu of the corporate governance provisions specified by the Nasdaq with limited exceptions. The following summarizes some significant ways in which our corporate governance practices differ from those followed by domestic companies under the listing standards of the Nasdaq.

Under Nasdaq Listing Rule 5635(c), shareholder approval is required prior to the issuance of securities when a stock option or purchase plan is to be established or materially amended or other equity compensation arrangement made or materially amended, pursuant to which stock may be acquired by officers, directors, employees, or consultants, subject to certain exceptions. This includes the issuance

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of shares to officers or directors in a private placement at a price less than market value, which is considered a form of equity compensation. The corporate governance practice in our home country, the Cayman Islands, does not require shareholder approval for the issuance of shares in a private placement at a price less than the greater of book value and market value, provided that the directors consider the issue price represents fair value for the shares being issued. We currently rely upon the relevant home country exemption in lieu of the requirement for shareholder approval of share issuances to officers or directors in private placements at a price less than the market value of the shares.

### PART III

#### ITEM 17. FINANCIAL STATEMENTS

The Registrant has elected to provide the financial statements and related information specified in Item 18.

#### ITEM 18. FINANCIAL STATEMENTS

The following is a list of the audited financial statements and a report of the independent registered public accounting firm included in this annual report beginning on page F-1.

	<u>Page</u>
Report of Independent Registered Public Accounting	F-2
Consolidated Balance Sheets as of December 31, 2009 and 2010	F-3
Consolidated Statements of Operations for each of the years ended December 31, 2008, 2009 and 2010	F-5
Consolidated Statements of Changes in Shareholders' Equity and Comprehensive Income (Loss) for the years ended December 31, 2008, 2009 and 2010	F-6
Consolidated Statements of Cash Flows for the years ended December 31, 2008, 2009 and 2010	F-7
Notes to the Consolidated Financial Statements	F-9

#### ITEM 19. EXHIBITS

<u>Exhibit Number</u>	<u>Description of Exhibits</u>
3.1*	Amended and Restated Memorandum and Articles of Association of Focus Media Holding Limited.
4.1*	Specimen Ordinary Share Certificate.
4.2**	Amended and Restated Shareholders Agreement of Focus Media Holding Limited, dated December 2, 2004, among Focus Media Holding Limited, its subsidiaries, its ordinary shareholders, its preferred shareholders and the investors named therein.
4.3†	Amended and Restated Deposit Agreement dated April 9, 2007 among the Registrant, Citibank, N.A. and holders of the American Depositary Receipts (incorporated by reference to the registration statement on Form F-6 (File No. 333-142820) filed with the Securities and Exchange Commission with respect to American Depositary Shares representing ordinary shares).
5.1*	Form of opinion of Conyers Dill & Pearman, Cayman Islands special counsel to the registrant, regarding the validity of the ordinary shares being registered.
5.2*	Form of opinion of Global Law Office, counsel as to PRC law to the registrant, regarding the validity of the corporate structure under PRC law.
8.1*	Form of opinion of Conyers Dill & Pearman, special Cayman Islands tax counsel to the registrant, regarding tax matters.

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<b>Exhibit Number</b>	<b>Description of Exhibits</b>
10.4**	Equity Pledge Agreement, dated March 28, 2005, by and among Jason Nanchun Jiang, Jimmy Wei Yu, Shanghai Focus Media Advertisement Co., Ltd., Focus Media Technology (Shanghai) Co., Ltd., Focus Media Digital Information Technology (Shanghai) Co., Ltd. and certain subsidiaries of Shanghai Focus Media Advertisement Co., Ltd.
10.5**	Call Option Agreement, dated March 28, 2005, among Jason Nanchun Jiang, Jimmy Wei Yu, Shanghai Focus Media Advertisement Co., Ltd., Focus Media Technology (Shanghai) Co., Ltd. and certain subsidiaries of Shanghai Focus Media Advertisement Co., Ltd.
10.6**	Shareholders' Voting Rights Proxy Agreement, dated March 28, 2005, among Jason Nanchun Jiang, Jimmy Wei Yu, Shanghai Focus Media Advertisement Co., Ltd., Focus Media Technology (Shanghai) Co., Ltd. and certain subsidiaries of Shanghai Focus Media Advertisement Co., Ltd.
10.9**	Loan Agreement, dated June 10, 2003, among Focus Media Holding Limited, Jason Nanchun Jiang, Jimmy Wei Yu, Yuanzhe Fu, Yibing Zhou and Yiqing Hou.
10.10**	Loan Agreement, dated March 28, 2005, by and between Jason Nanchun Jiang and Focus Media Technology (Shanghai) Co., Ltd.
10.11**	Loan Agreement, dated March 28, 2005, by and among Jimmy Wei Yu, Focus Media Technology (Shanghai) Co., Ltd. and Shanghai Focus Media Advertisement Co., Ltd.
10.12**	Form of Employment Agreement of Focus Media Technology (Shanghai) Co., Ltd.
10.13*	Manager Non-Competition Agreement entered into by Focus Media Holding Limited and Jason Nanchun Jiang on November 29, 2004. (Previously filed as Exhibit 10.10 to the Company's registration statement on Form F-1 (File No.: 333-146913), dated October 24, 2007.)
10.14*	Technology Transfer Agreement entered into by Jimmy Wei Yu and Focus Media Digital Information (Shanghai) Co., Ltd., dated November 1, 2004. (Previously filed as Exhibit 10.11 to the Company's registration statement on Form F-1 (File No.: 333-146913), dated October 24, 2007.)
10.15*	Asset and Business Acquisition Agreement between Shanghai Everease Communication Company and Shanghai Focus Media Advertisement Co., Ltd. dated July 1, 2003. (Previously filed as Exhibit 10.93 to the Company's registration statement on Form F-1 (File No.: 333-146913), dated October 24, 2007.)
10.16*	Eveease Non-competition Agreement between Focus Media Holding Limited and Shanghai Everease Communications Company, dated as of November 2004. (Previously filed as Exhibit 10.12 to the Company's registration statement on Form F-1 (File No.: 333-125785), dated June 14, 2005.)
10.17**	Sales Contract between Shanghai Everease Communication Company and Shanghai Focus Media Advertisement Co., Ltd., dated May 2003. (Previously filed as Exhibit 10.20 to the Company's registration statement on Form F-1 (File No.: 333-125785), dated June 14, 2005.)
10.18**	Project Cooperation Framework Agreement between Shanghai Everease Communication Company and Beijing Suodi Advertising Co., Ltd., dated February, April and June 2003. (Previously filed as Exhibit 10.21 to the Company's registration statement on Form F-1 (File No.: 333-125785), dated June 14, 2005.)
10.19**	Transfer Agreement on Project Cooperation Framework Agreement between Shanghai Focus Media Advertisement Co., Ltd. and Beijing Suodi Advertising Co., Ltd., dated August 28, 2003. (Previously filed as Exhibit 10.22 to the Company's registration statement on Form F-1 (File No.: 333-125785), dated June 14, 2005.)

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<b>Exhibit Number</b>	<b>Description of Exhibits</b>
10.20**	Business Agency Agreement between Shanghai On-Target Advertising Co., Ltd. and Shanghai Focus Media Advertisement Co., Ltd. (Previously filed as Exhibit 10.23 to the Company's registration statement on Form F-1 (File No.: 333-125785), dated June 14, 2005.)
10.21**	Agreement between Shanghai On-Target Advertising Co., Ltd., Jimmy Wei Yu, Shanghai Focus Media Advertisement Co., Ltd., Union Enterprise Holding Co., Ltd. and Shenlong Lin, dated October 15, 2003. (Previously filed as Exhibit 10.24 to the Company's registration statement on Form F-1 (File No.: 333-125785), dated June 14, 2005.)
10.22*	Acknowledgement Letter entered into as of March 28, 2005 by and among Shanghai Focus Media Advertisement Co., Ltd., Focus Media Technology (Shanghai) Co., Ltd., Focus Media Digital Information Technology (Shanghai) Co., Ltd. and certain then subsidiaries of Shanghai Focus Media Advertisement Co., Ltd. (Previously filed as Exhibit 10.13 to the Company's registration statement on Form F-1 (File No.: 333-146913), dated October 24, 2007.)
10.48*	Share Purchase Agreement, dated October 15, 2005, as amended and supplemented, among Focus Media Holding Limited, Infoachieve Limited, Total Team Investments Limited and the other Infoachieve parties named therein. (Previously filed as Exhibit 10.98 to the Company's registration statement on Form F-1 (File No.: 333-146913), dated October 24, 2007.)
10.49*	Share Purchase Agreement, dated as of January 7, 2006, among Focus Media Holding Limited, Target Media Holdings Limited and Its Shareholders. (Previously filed as Exhibit 10.97 to the Company's registration statement on Form F-1 (File No.: 333-146913), dated October 24, 2007.)
10.50***	Asset Transfer Agreement, dated December 31, 2005, by and between Focus Media Digital Information Technology (Shanghai) Co., Ltd. and Shanghai New Focus Media Advertisement Co., Ltd.
10.51*	Share Purchase Agreement, dated March 7, 2006, by and among Focus Media Holding Limited and Dotad Media Holdings Co., Ltd. (Previously filed as Exhibit 10.24 to the Company's registration statement on Form F-1 (File No.: 333-146913), dated October 24, 2007.)
10.70 <sup>∞</sup>	Acknowledgement Letter of Participation of Equity Pledge Agreement, dated May 22, 2006, of Fuzhou Fukesi Advertising Co., Ltd.
10.71 <sup>∞</sup>	Acknowledgement Letter of Participation of Call Option Agreement, dated May 22, 2006, of Fuzhou Fukesi Advertising Co., Ltd.
10.72 <sup>∞</sup>	Acknowledgement Letter of Participation of Shareholders' Voting Rights Proxy Agreement, dated May 22, 2006, of Fuzhou Fukesi Advertising Co., Ltd.
10.79 <sup>∞</sup>	Acknowledgement Letter of Participation of Equity Pledge Agreement, dated May 22, 2006, of Shanghai Jiefang Focus Media Advertisement Co., Ltd.
10.80 <sup>∞</sup>	Acknowledgement Letter of Participation of Call Option Agreement, dated May 22, 2006, of Shanghai Jiefang Focus Media Advertisement Co., Ltd.
10.81 <sup>∞</sup>	Acknowledgement Letter of Participation of Shareholders' Voting Rights Proxy Agreement, dated May 22, 2006, of Shanghai Jiefang Focus Media Advertisement Co., Ltd.
10.82 <sup>∞</sup>	Acknowledgement Letter of Participation of Equity Pledge Agreement, dated May 22, 2006, of Shanghai Perfect Media Advertising Agency Co., Ltd.
10.83 <sup>∞</sup>	Acknowledgement Letter of Participation of Call Option Agreement, dated May 22, 2006, of Shanghai Perfect Media Advertising Agency Co., Ltd.

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<b>Exhibit Number</b>	<b>Description of Exhibits</b>
10.84 <sup>∞</sup>	Acknowledgement Letter of Participation of Shareholders' Voting Rights Proxy Agreement, dated May 22, 2006, of Shanghai Perfect Media Advertising Agency Co., Ltd.
10.85 <sup>α</sup>	Confirmation Letter, dated as of August 30, 2010, among Shanghai Focus Media Advertisement Co., Ltd., Jimmy Wei Yu, Shanghai Perfect Media Advertising Agency Co., Ltd., Focus Media Technology (Shanghai) Co., Ltd. and Focus Media Digital Information Technology (Shanghai) Co., Ltd.
10.98 <sup>β</sup>	Share Purchase Agreement, dated as of February 28, 2007, among Allyes Information Technology Company Limited, the selling shareholders named therein and Focus Media Holding Limited.
10.168 <sup>γ</sup>	Termination and Release Agreement, dated as of December 8, 2008, among Focus Media Holding Limited, CGEN Digital Media Company Limited, Chan Yi Sing (individually and as representative of all CGEN selling shareholders), Guanyong Tian and Mei Lijun.
10.181 <sup>γ†</sup>	Asset Purchase Agreement, dated as of December 22, 2008, between Focus Media Holding Limited and SINA Corporation.
10.182 <sup>α</sup>	2010 Employee Share Option Plan.
10.183 <sup>α</sup>	Subscription Agreement, dated as of September 23, 2009, between Focus Media Holding Limited and JJ Media Investment Holding Limited.
10.184 <sup>α</sup>	Restricted ADS Facility Letter, dated as of November 19, 2009, between Focus Media Holding Limited and Citibank, N.A., as depository.
10.185 <sup>α</sup>	Shares Purchase and Sales Agreement, dated as of January 1, 2010, among Focus Media Holding Limited, Allyes Online Media Holdings Ltd. and the purchasers named therein.
10.186 <sup>α</sup>	Equity Transfer Agreement, dated as of January 1, 2010, among Allyes Shanghai Investment Management Services Shanghai, Smartmedia Investment Management Services and Allyes (China) Holdings Limited and the purchasers named therein.
10.187 <sup>δ</sup>	Share Purchase Agreement By and Among Focus Media Holding Limited, Asteroid Media Holding Limited, and Focus Media Holding Limited, as representative and attorney-in-fact, dated as of July 30, 2010.
10.188 <sup>Ω</sup>	Indemnity Agreement, dated September 7, 2010, between JJ Media Investment Holding Limited and Focus Media Holding Limited.
10.189 <sup>ε</sup>	Securities Purchase Agreement between Fosun International Limited and Focus Media Holding Limited, dated September 20, 2010.
10.190	Securities Purchase Agreement by and among VisionChina Media Inc., Focus Media Holding Limited and the other investors named therein, dated December 30, 2010.
10.191	Shareholders Agreement by and among Focus Media Holding Limited, JJ Media Investment Holding Limited, Front Lead Investments Limited, Limin Li and VisionChina Media Inc., dated January 13, 2011.
10.192	Registration Rights Agreement by and among VisionChina Media Inc., Focus Media Holding Limited, JJ Media Investment Holding Limited and Front Lead Investments Limited, dated January 13, 2011.
12.1	Certificate of Chief Executive Officer.
12.2	Certificate of Chief Financial Officer.

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<b>Exhibit Number</b>	<b>Description of Exhibits</b>
13.1	Certification of Periodic Financial Report.
13.2	Certification of Periodic Financial Report.
21.1	List of Subsidiaries.
23.1	Consent of Global Law Office.
23.2	Consent of Conyers Dill & Pearman.
23.3	Consent of Deloitte Touche Tohmatsu CPA Ltd.

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\* Previously filed with the Company's registration statement on Form F-1 (File No.: 333-146913), dated October 24, 2007 and incorporated by reference herein.

\*\* Previously filed with the Company's registration statement on Form F-1 (File No.: 333-125785), dated June 14, 2005 and incorporated by reference herein.

† Previously filed with the Company's negotiation statement on Form F-6 (File No. 333-142820), dated April 2, 2007.

\*\*\* Previously filed with the Company's amended registration statement on Form F-1/A (File No.: 333-131065), dated January 23, 2006 and incorporated by reference herein.

∞ Previously filed with the Company's registration statement on Form F-1 (File No.: 333-134714), dated June 2, 2006 and incorporated by reference herein.

α Previously filed with the Company's annual report on Form 20-F for the year ended December 31, 2009 and incorporated by reference herein.

β Previously filed with the Company's annual report on Form 20-F for the year ended December 31, 2006 and incorporated by reference herein and incorporated by reference herein.

γ Previously filed with the Company's annual report on Form 20-F for the year ended December 31, 2008 and incorporated by reference herein.

δ Previously filed with the Company's amendment to the annual report on Form 20-F for the year ended December 31, 2009 dated September 7, 2010 and incorporated by reference herein.

ε Previously filed with the Company's amendment to the annual report on Form 20-F for the year ended December 31, 2009 dated November 5, 2010 and incorporated by reference herein.

Ω Previously filed with the Company's report on Form 6-K (File No.: 000-51387), dated September 8, 2010 and incorporated by reference herein.

†† Confidential treatment requested for certain portions of this Exhibit pursuant to Rule 24b-2 promulgated under the Securities Exchange Act, which portions are omitted and filed separately with the Securities and Exchange Commission.

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**SIGNATURES**

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

Focus Media Holding Limited

By: /s/ Jason Nanchun Jiang

Name: Jason Nanchun Jiang

Title: Chairman and Chief Executive Officer

Date: June 20, 2011

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**FOCUS MEDIA HOLDING LIMITED**  
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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders of  
Focus Media Holding Limited

We have audited the accompanying consolidated balance sheets of Focus Media Holding Limited and subsidiaries (the “Group”) as of December 31, 2009 and 2010, and the related consolidated statements of operations, changes in equity and comprehensive income (loss), and cash flows for each of the three years in the period ended December 31, 2010. These financial statements are the responsibility of the Group’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Focus Media Holding Limited and subsidiaries as of December 31, 2009 and 2010, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2010, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Group’s internal control over financial reporting as of December 31, 2010, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated June 20, 2011 expressed an unqualified opinion on the Group’s internal control over financial reporting.

/s/ DELOITTE TOUCHE TOHMATSU CPA LTD.

Shanghai, China  
June 20, 2011

**FOCUS MEDIA HOLDING LIMITED**  
**CONSOLIDATED BALANCE SHEETS**

	December 31,	
	2009	2010
(In U.S. Dollars, except share and per share data, unless otherwise stated)		
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 568,159,372	\$ 454,475,593
Investments	29,290,296	137,551,150
Accounts receivable, net of allowance for doubtful accounts of \$33,596,096 and \$21,088,503 in 2009 and 2010, respectively	172,752,473	157,328,743
Prepaid expenses and other current assets	29,451,741	54,759,866
Deposits paid for acquisition of subsidiaries	4,860,406	1,162,668
Amounts due from related parties	3,284,404	469,374
Rental deposits	29,639,716	46,613,780
<b>Total current assets</b>	<b>837,438,408</b>	<b>852,361,174</b>
Rental deposits	1,570,337	5,681,865
Equipment, net	77,661,147	68,886,796
Acquired intangible assets, net	51,777,215	24,162,043
Goodwill	410,368,691	425,334,632
Other long-term assets	14,627,502	7,733,029
<b>Total assets</b>	<b>\$ 1,393,443,300</b>	<b>\$ 1,384,159,539</b>
<b>Liabilities and equity</b>		
<b>Current liabilities:</b>		
Accounts payable (including accounts payable of the consolidated VIEs without recourse to the Group of \$4,410,602 and \$4,340,424 as of December 31, 2009 and 2010, respectively)	\$ 53,340,007	\$ 16,589,293
Accrued expenses and other current liabilities (including accrued expenses and other current liabilities of the consolidated VIEs without recourse to the Group of \$7,234,408 and \$10,635,394 as of December 31, 2009 and 2010, respectively)	101,870,170	121,763,522
Income taxes payable (including income taxes payable of the consolidated VIEs without recourse to the Group of \$2,976,916 and \$2,914,969 as of December 31, 2009 and 2010, respectively)	27,537,785	8,890,191
Amounts due to related parties	2,230,894	1,848,189
Deferred tax liabilities (including deferred tax liabilities of the consolidated VIEs without recourse to the Group of \$277,406 and \$1,820,531 as of December 31, 2009 and 2010, respectively)	12,077,282	23,627,893
<b>Total current liabilities</b>	<b>197,056,138</b>	<b>172,719,088</b>
Deferred tax liabilities (including deferred tax liabilities of the consolidated VIEs without recourse to the Group of \$1,406,095 and \$710,252 as of December 31, 2009 and 2010, respectively)	5,435,178	9,997,511
<b>Total liabilities</b>	<b>\$ 202,491,316</b>	<b>\$ 182,716,599</b>
<b>Commitments and contingencies (Note 17)</b>		
<b>Equity</b>		
Ordinary shares (\$0.00005 par value; 19,800,000,000 shares authorized in 2009 and 2010; 725,278,005 and 677,934,625 shares issued and outstanding in 2009 and 2010, respectively)	36,287	33,920
Additional paid-in capital	1,875,304,804	1,685,148,851
Subscription receivable	(3,081,726)	(90,984)
Retained earnings (deficit)	(747,226,391)	(562,952,914)
Accumulated other comprehensive income	64,090,691	78,339,729

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	December 31,	
	2009	2010
	(In U.S. Dollars, except share and per share data, unless otherwise stated)	
<b>Total Focus Media Holdings Limited shareholders' equity</b>	\$ 1,189,123,665	\$ 1,200,478,602
Noncontrolling interests	1,828,319	964,338
<b>Total equity</b>	<u>\$ 1,190,951,984</u>	<u>\$ 1,201,442,940</u>
<b>Total liabilities and equity</b>	<u>\$ 1,393,443,300</u>	<u>\$ 1,384,159,539</u>

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

**FOCUS MEDIA HOLDING LIMITED**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

	For the years ended December 31,		
	2008	2009	2010
	(In U.S. Dollars, except share and per share data, unless otherwise stated)		
<b>Net revenues:</b>			
Advertising service revenue	\$ 525,565,494	\$ 396,863,987	\$ 516,075,284
Other revenues	3,621,880	300,535	239,413
Total net revenues	<u>529,187,374</u>	<u>397,164,522</u>	<u>516,314,697</u>
<b>Cost of revenues:</b>			
Advertising service cost	257,320,504	240,782,540	221,551,334
Other costs	1,722,996	290,663	138,700
Total cost of revenues	<u>259,043,500</u>	<u>241,073,203</u>	<u>221,690,034</u>
<b>Gross profit</b>	<u>270,143,874</u>	<u>156,091,319</u>	<u>294,624,663</u>
<b>Operating expenses:</b>			
General and administrative	79,162,336	88,833,305	79,759,757
Selling and marketing	82,258,177	79,786,861	103,722,237
Impairment loss	377,629,012	63,646,227	5,736,134
Other operating expenses (income), net	183,113,307	13,111,043	(14,143,945)
<b>Total operating expenses</b>	<u>722,162,832</u>	<u>245,377,436</u>	<u>175,074,183</u>
<b>Income (loss) from operations</b>	(452,018,958)	(89,286,117)	119,550,480
Interest income	7,130,080	4,945,946	7,259,508
Investment loss	—	—	1,287,881
Income (loss) from continuing operations before income taxes	(444,888,878)	(84,340,171)	125,522,107
Income taxes	25,278,127	13,780,065	22,335,579
<b>Net income (loss) from continuing operations</b>	(470,167,005)	(98,120,236)	103,186,528
<b>Net income (loss) from discontinued operations, net of tax</b>	<u>(300,670,962)</u>	<u>(111,612,420)</u>	<u>83,077,575</u>
<b>Net income (loss)</b>	(770,837,967)	(209,732,656)	186,264,103
Less: Net income (loss) attributable to noncontrolling interests	(150,441)	3,524,388	1,990,626
<b>Net income (loss) attributable to Focus Media Holding Limited Shareholders</b>	<u>\$ (770,687,526)</u>	<u>\$ (213,257,044)</u>	<u>\$ 184,273,477</u>
Income (loss) per share from continuing operations — basic	\$ (0.73)	\$ (0.15)	\$ 0.15
Income (loss) per share from continuing operations — diluted	\$ (0.73)	\$ (0.15)	\$ 0.14
Income (loss) per share from discontinued operations — basic	\$ (0.47)	\$ (0.17)	\$ 0.12
Income (loss) per share from discontinued operations — diluted	\$ (0.47)	\$ (0.17)	\$ 0.11

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	For the years ended December 31,		
	2008	2009	2010
	(In U.S. Dollars, except share and per share data, unless otherwise stated)		
Income (loss) per share — basic	\$ (1.20)	\$ (0.33)	\$ 0.26
Income (loss) per share — diluted	\$ (1.20)	\$ (0.33)	\$ 0.25
Shares used in calculating basic income (loss) per share	<u>643,989,522</u>	<u>651,654,345</u>	<u>707,846,570</u>
Shares used in calculating diluted income (loss) per share	<u>643,989,522</u>	<u>651,654,345</u>	<u>731,658,265</u>

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

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**FOCUS MEDIA HOLDING LIMITED**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**AND COMPREHENSIVE INCOME (LOSS)**  
(In U.S. Dollars, except share and per share data, unless otherwise stated)

	Ordinary shares	Ordinary shares Amount	Additional paid-in capital	Subscription receivables	Retained earning (accumulated deficit)	Accumulated other comprehensive income	Noncontrolling interests	Total equity	Comprehensive income (loss)
<b>Balance at January 1, 2008</b>	640,230,852	\$ 32,020	\$1,581,579,792	—	\$ 236,718,179	\$ 36,614,206	\$ 1,913,248	\$1,856,857,445	\$ —
Issuance of ordinary shares in connection with acquisitions	9,718,588	486	72,426,852	—	—	—	—	72,427,338	—
Issuance of ordinary shares pursuant to share option plans	9,073,980	468	10,710,833	—	—	—	—	10,711,301	—
Stock repurchase	(12,941,710)	(647)	(47,499,564)	—	—	—	—	(47,500,211)	—
Share-based compensation expense	—	—	42,615,166	—	—	—	—	42,615,166	—
Unrealized loss on available- for-sale securities	—	—	—	—	—	(1,967,393)	—	(1,967,393)	(1,967,393)
Capital injection from noncontrolling interest holders	—	—	—	—	—	—	213,706	213,706	—
Cumulative translation adjustments	—	—	—	—	—	37,241,171	129,277	37,370,448	37,370,448
Net loss	—	—	—	—	(770,687,526)	—	(150,441)	(770,837,967)	(770,837,967)
<b>Balance at December 31, 2008</b>	646,081,710	\$ 32,327	\$1,659,833,079	—	\$(533,969,347)	\$ 71,887,984	\$ 2,105,790	\$1,199,889,833	<u><u>\$(735,434,912)</u></u>
Issuance of ordinary shares pursuant to share option plans	4,196,295	210	5,155,541	\$(3,081,726)	—	—	—	2,074,025	—
Issuance of ordinary shares	75,000,000	3,750	142,421,250	—	—	—	—	142,425,000	—
Share-based compensation expense	—	—	66,503,134	—	—	—	—	66,503,134	—
Changes in equity ownership on partial disposal of subsidiaries	—	—	1,391,800	—	—	—	839,704	2,231,504	—
Disposal of subsidiaries	—	—	—	—	—	(782,940)	(4,647,028)	(5,429,968)	—
Cumulative translation	—	—	—	—	—	(7,014,353)	5,465	(7,008,888)	(7,008,888)

adjustments

Net loss	—	—	—	—	(213,257,044)	—	3,524,388	(209,732,656)	(209,732,656)
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**Balance at  
December 31,  
2009**

725,278,005	\$	36,287	\$1,875,304,804	\$(3,081,726)	\$(747,226,391)	\$	64,090,691	\$	1,828,319	\$1,190,951,984	<u>\$(216,741,544)</u>
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Issuance of ordinary shares pursuant to share option plans	12,910,550	646	596,821	2,990,742	—	—	—	3,588,209	—
Stock repurchase	(60,253,930)	(3,013)	(240,161,971)	—	—	—	—	(240,164,984)	—
Share-based compensation expense	—	—	45,591,618	—	—	—	—	45,591,618	—
Changes in equity ownership on partial disposal of subsidiaries	—	—	3,817,579	—	—	(2,901,251)	13,273,615	14,189,943	—
Disposal of subsidiaries	—	—	—	—	—	(4,729,725)	(16,272,312)	(21,002,037)	—
Cumulative translation adjustments	—	—	—	—	—	21,880,014	144,090	22,024,104	22,024,104
Net income	—	—	—	—	184,273,477	—	1,990,626	186,264,103	186,264,103

**Balance at  
December 31,  
2010**

<u>677,934,625</u>	<u>\$</u>	<u>33,920</u>	<u>\$1,685,148,851</u>	<u>\$</u>	<u>(90,984)</u>	<u>\$(562,952,914)</u>	<u>\$</u>	<u>78,339,729</u>	<u>\$</u>	<u>964,338</u>	<u>\$1,201,442,940</u>	<u>\$</u>	<u>208,288,207</u>
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The accompanying notes are an integral part of these consolidated financial statements.

**FOCUS MEDIA HOLDING LIMITED**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	For the years ended December 31,		
	2008	2009 (In U.S. dollars)	2010
<b>Operating activities:</b>			
Net income (loss)	(770,837,967)	(209,732,656)	186,264,103
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Bad debt expenses	15,767,332	29,076,504	454,624
Share-based compensation	42,615,166	66,503,134	45,591,618
Depreciation and amortization	71,852,826	62,728,660	45,876,222
Unrealized gain on available-for-sale securities	(408,387)	—	—
Loss from equity method investees	9,557	—	—
(Gain)/loss on disposal of equity interest of subsidiaries and impairment of other long-lived assets	282,567,020	66,180,083	(76,167,018)
Loss on disposal of equipment	697,909	1,346,489	318,815
Impairment loss for goodwill	596,069,011	87,608,201	5,736,134
Impairment loss for acquired intangible assets	4,810,987	25,437,087	—
Impairment loss for equipment	18,562,323	40,318,817	—
Changes in assets and liabilities, net of effects of acquisitions:			
Accounts receivable	(124,577,341)	929,044	(38,969,202)
Inventories	126,858	202,090	(68,030)
Prepaid expenses and other current assets	(28,802,626)	(3,794,689)	3,247,428
Amounts due from related parties	(4,545,372)	6,405,746	2,407,864
Rental deposits	1,712,586	1,327,564	(27,688,926)
Accounts payable	45,099,316	23,202,611	11,318,600
Accrued expenses and other current liabilities	9,135,910	(23,325,332)	47,409,016
Amounts due to related parties	2,625,515	(13,356,596)	(513,469)
Income tax payable	15,462,823	(1,199,784)	(19,090,163)
Deferred taxes	(9,502,842)	866,257	(905,898)
<b>Net cash provided by operating activities</b>	<b>\$ 168,440,604</b>	<b>\$ 160,723,230</b>	<b>\$ 185,221,718</b>
<b>Investing activities:</b>			
Purchase of equipment and other long-term assets	\$ (72,875,855)	\$ (10,654,598)	\$ (18,692,608)
Cash of disposed subsidiary	(11,693,755)	(27,315,949)	(40,805,068)
Proceeds from sale of subsidiaries	—	—	116,872,231
Acquisition of intangible assets	(1,766,633)	—	—
Purchase of subsidiaries and earn-out payment paid to acquire subsidiaries, net of cash acquired	(133,347,771)	(92,411,545)	(40,186,684)
Investment in a joint venture	(2,970,000)	—	—
Deposit (paid)/refunded to acquire subsidiaries	(14,270,053)	329,516	—
Proceeds from disposal of fixed assets	—	196,115	471,128
Cash paid for purchases of debt and equity securities	—	(29,257,303)	(137,551,150)
Cash received from sale of debt and equity securities	91,129,763	865,589	29,290,296
<b>Net cash used in investing activities</b>	<b>\$ (145,794,304)</b>	<b>\$ (158,248,175)</b>	<b>\$ (90,601,855)</b>

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	For the years ended December 31,		
	2008	2009 (In U.S. dollars)	2010
Financing activities:			
Proceeds from issuance of ordinary shares	\$ —	\$ 142,425,000	\$ —
Proceeds from issuance of ordinary shares pursuant to share option plans	10,711,301	2,074,025	3,588,209
Proceeds from short-term loans	370,423	—	—
Repayment of short-term loans	(30,411,521)	—	—
Capital injection from minority shareholders	213,706	—	—
Proceeds from partial disposal of subsidiaries	—	—	10,980,282
Share repurchase	(47,500,211)	—	(237,168,910)
<b>Net cash provided by (used) in financing activities</b>	<b>\$ (66,616,302)</b>	<b>\$ 144,499,025</b>	<b>\$ (222,600,419)</b>
Effect of exchange rate changes	16,469,125	(1,730,212)	14,296,777
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>\$ (27,500,877)</b>	<b>\$ 145,243,868</b>	<b>\$ (113,683,779)</b>
Cash and cash equivalents, beginning of year	450,416,381	142,434,073	568,159,372
Add/(less): cash and cash equivalents in assets held-for-sale	(280,481,431)	280,481,431	—
<b>Cash and cash equivalents, end of year</b>	<b>\$ 142,434,073</b>	<b>\$ 568,159,372</b>	<b>\$ 454,475,593</b>
Supplemental disclosure of cash flow information			
Income taxes paid	\$ 23,712,147	\$ 12,965,179	\$ 32,031,106
Interest paid	\$ —	\$ —	\$ —
<b>SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING ACTIVITIES</b>			
Non-cash investing activities:			
Acquisition of subsidiaries:			
Value of ordinary shares issued	\$ 72,427,338	\$ —	\$ —
Accounts payable	\$ 60,501,181	\$ 20,326,014	\$ 4,920,493
Liabilities recorded as a result of contingent consideration	\$ 13,510,310	\$ —	\$ —
Non-cash financing activities:			
Payable for share repurchase	\$ —	\$ —	\$ 2,996,074
Proceeds from partial disposal of subsidiaries offset against other payables	\$ —	\$ —	\$ 3,209,661

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

**FOCUS MEDIA HOLDING LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2008, 2009 AND 2010**  
**(In U.S. dollars except share data and unless otherwise stated)**

**1. Organization and Principal Activities**

Focus Media Holding Limited (“Focus Media Holding” or the “Company”) and all of its subsidiaries and consolidated variable interest entities (“VIEs”) are collectively referred to as “the Group”. The Group is mainly engaged in selling out-of-home television advertising time slots on its network of flat-panel television advertising (“LCD”) displays located in high traffic areas and in-store network. The Group is also engaged in providing advertising services on poster frames, on screens in movie theatres and on traditional outdoor billboards.

On December 22, 2008, the Company announced that it entered into a definitive agreement with SINA Corporation (“SINA”) to sell substantially all of the assets of Focus Media’s LCD display network, poster frame network and certain in-store network (the “disposal group”). The disposal group was recorded as an asset group held-for-sale for the year ended December 31, 2008, and was not depreciated or amortized nor was it subject to the same impairment analysis as assets held and used in continuing operations. On September 28, 2009, the Company and SINA jointly reached a decision not to extend the deadline of the agreement announced on December 22, 2008. As such, the disposal group was reclassified as assets to be held and used thereafter. The results of the disposal group have been classified as continuing operations for all periods presented.

**2. Summary of Significant Accounting Policies**

**(a) Basis of Presentation**

The consolidated financial statements of the Group have been prepared in accordance with accounting principles generally accepted in the United States of America (“US GAAP”).

**(b) Basis of Consolidation**

The consolidated financial statements include the financial statements of Focus Media Holding, its majority-owned subsidiaries, its VIEs and their majority-owned subsidiaries. All inter-company transactions and balances have been eliminated upon consolidation.

**(c) Cash and Cash Equivalents**

Cash and cash equivalents consist of cash on hand and highly liquid investments which are unrestricted as to withdrawal or use, and which have original maturities of three months or less when purchased.

**(d) Use of Estimates**

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and revenue and expenses in the financial statements and accompanying notes. Actual results could differ from such estimates. Significant accounting estimates reflected in the Group’s financial statements include allowance for doubtful accounts, useful lives of long-lived assets, assumptions utilized in computing agency rebates, the impairment of long-lived assets and goodwill, the recognition and measurement of current and deferred income tax assets, valuation of financial instruments, and the valuation and recognition of share-based compensation. The actual results experienced by the Group may differ from management’s estimates.

**(e) Investments**

The Group enters into asset management agreements to invest in debt and equity securities with commercial banks from time to time. Certain asset management agreements have a definite investment period. When the Group has both the positive intent and ability to hold these debt investments to maturity, it classifies them

**FOCUS MEDIA HOLDING LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2008, 2009 AND 2010**  
**(In U.S. dollars except share data and unless otherwise stated)**

as held-to-maturity and records them at amortized cost. All held-to-maturity investments have remaining maturities of less than one year.

Certain asset management agreements may not have a definite investment period. The Group classifies these investments in debt and equity securities as available-for-sale securities, which are stated at fair market value with unrealized gains and losses recorded in accumulated other comprehensive income. All available-for-sale debt and equity investments have remaining maturities of less than one year. The Group routinely reviews available-for-sale and held-to-maturity investments for other-than-temporary declines in fair value below the cost basis, and when events or changes in circumstances indicate the carrying value of an asset may not be recoverable, the investments are written down to fair value.

As of December 31, 2009 and 2010, all the investments of the Group were classified as held-to-maturity and recorded at amortized costs.

***(f) Investment in equity affiliates***

Affiliated companies are entities over which the Group has significant influence, but which it does not control. The Group generally considers an ownership interest of 20% or higher to represent significant influence. Investments in equity affiliates are accounted for by the equity method of accounting. Under this method, the Group's share of the post-acquisition profits or losses of affiliated companies is recognized in the consolidated statement of operations and its shares of post-acquisition movements in other comprehensive income are recognized in other comprehensive income. Unrealized gains on transactions between the Group and its affiliated companies are eliminated to the extent of the Group's interest in the affiliated companies; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. When the Group's share of losses in an affiliated company equals or exceeds its interest in the affiliated company, the Group does not recognize further losses, unless the Group has incurred obligations or made payments on behalf of the affiliated company. An impairment loss is recorded when there has been a loss in value of the investment that is other-than-temporary.

***(g) Equipment, Net***

Equipment, net is carried at cost less accumulated depreciation. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

Media display equipment	5 years
Computers and office equipment	5 years
Vehicles	5 years
Leasehold improvements	lesser of the term of the lease or the estimated useful lives of the assets

Gains and losses from the disposal of property and equipment are included in income from operations.

***(h) Acquired Intangible Assets, net***

Acquired intangible assets, which consist of operation and broadcasting rights, lease agreements, customer bases, customer backlogs, trademarks, non-compete agreements, and acquired technology are valued at cost less accumulated amortization. Amortization of acquired intangible assets (except for certain customer bases) is calculated using the straight-line method over their expected useful lives of one to ten years. Amortization of certain customer bases are calculated using an accelerated method over the expected useful lives of the underlying customers.

***(i) Impairment of Long-Lived Assets***

The Group evaluates its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. When these events occur, the Group

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measures impairment by comparing the carrying amount of the assets to the future undiscounted cash flows expected to result from the use of the assets and their eventual disposition. If the sum of the future undiscounted cash flow is less than the carrying amount of the assets, the Group recognizes an impairment loss equal to the excess of the carrying amount over the fair value of the assets.

***(j) Impairment of Goodwill***

The Group performs an annual two-step goodwill impairment test. The first step compares the fair value of each reporting unit to its carrying amount, including goodwill. If the fair value of each reporting unit exceeds its carrying amount, goodwill is not considered to be impaired and the second step will not be required. If the carrying amount of a reporting unit exceeds its fair value, the second step compares the implied fair value of goodwill to the carrying value of a reporting unit's goodwill. The implied fair value of goodwill is determined in a manner similar to accounting for a business combination with the allocation of the assessed fair value determined in the first step to the assets and liabilities of the reporting unit. The excess of the fair value of the reporting unit over the amounts assigned to the assets and liabilities is the implied fair value of goodwill. This allocation process is only performed for purposes of evaluating goodwill impairment and does not result in an entry to adjust the value of any assets or liabilities. An impairment loss is recognized for any excess in the carrying value of goodwill over the implied fair value of goodwill.

***(k) Revenue Recognition***

The Group's revenues are primarily derived from advertising services and to a lesser extent, sales from advertising equipment.

Revenues from advertising services and advertising equipment are recognized when (i) persuasive evidence of an arrangement exists; (ii) delivery of the products and/or services has occurred and risks and rewards of ownership have passed to the customer; (iii) the selling price is both fixed and determinable; and (iv) collection of the resulting receivable is reasonably assured.

The Group generates advertising service revenues from the sale of advertising time slots in the out-of-home television advertising networks, the sales of frame space on the poster frame network, advertising time slots on big screen networks leased from movie theatres and on traditional billboard networks. In the majority of advertising arrangements, the Group acts as a principal in the transaction and records advertising revenues on a gross basis. The associated expenses are recorded as cost of revenues. In some instances the Group is considered an agent and recognizes revenue on a net basis. Revenues from advertising services are recognized, net of agency rebates, ratably over the period in which the advertisement is displayed, assuming all other revenue recognition criteria have been met.

Revenues from the sale of advertising equipment are recognized upon delivery, assuming all other revenue recognition criteria have been met.

The Group entered into franchise arrangements with a number of third party franchisors. Revenue from initial franchise fees was recognized when the franchise sale transaction was completed, that is, when all material services or conditions relating to the sale had been substantially performed or satisfied by the franchisor.

Prepayments for advertising services are deferred and recognized as revenue when the advertising services are rendered.

***(l) Operating Leases***

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases are charged to the consolidated statements of operations on a straight-line basis over the lease periods.

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***(m) Advertising Costs***

The Group expenses advertising costs as incurred. Total advertising expenses were \$1,031,292, \$559,612 and \$718,877 for the years ended December 31, 2008, 2009, and 2010, respectively, and have been included in general and administrative expenses.

***(n) Foreign Currency Translation***

The functional and reporting currency of Focus Media Holding is the United States dollar ("US dollar"). Monetary assets and liabilities denominated in currencies other than the US dollar are translated into the US dollar at the rates of exchange ruling at the balance sheet date. Transactions in currencies other than the US dollar during the year are converted into US dollar at the applicable rates of exchange prevailing at the transactions date. Transaction gains and losses are recognized in other operating income (expenses), net. The financial records of the Group's subsidiaries and its VIEs are maintained in its local currency, the Renminbi ("RMB"), which is the functional currency. Assets and liabilities are translated at the exchange rates at the balance sheet date. Equity accounts are translated at historical exchange rates and revenues, expenses, gains and losses are translated using the average rate for the year. Translation adjustments are reported as cumulative translation adjustments and are shown as a separate component of other comprehensive income in the statements of equity and comprehensive income (loss).

***(o) Income Taxes***

Deferred income taxes are recognized for temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements, net operating loss carry forwards and credits by applying enacted statutory tax rates applicable to future years. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Current income taxes are provided for in accordance with the laws of the relevant taxing authorities. The components of the deferred tax assets and liabilities are individually classified as current and non-current based upon the classification of the related asset or liability in the financial statements or the expected timing of their reversal if they do not relate to a specific asset or liability.

The Group only recognizes tax benefits related to uncertain tax positions when such positions are more likely than not of being sustained upon examination. For such position, the amount of benefit the Group recognizes is the largest amount of tax benefit that is more than fifty percent likely of being sustained upon the ultimate settlement of such uncertain position.

***(p) Comprehensive Income (Loss)***

Comprehensive income (loss) includes foreign currency translation adjustments and unrealized gains (losses) on investments classified as available-for-sale. Comprehensive income is reported in the consolidated statements of changes in equity and comprehensive income (loss).

***(q) Fair Value of Financial Instruments***

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

The Group applies a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Under this hierarchy, there are three levels of inputs that may be used to measure fair value:

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Level 1 applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.

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

Level 3 applies to asset or liabilities for which there are unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the assets or liabilities.

The Group did not have any financial instruments that were required to be measured at fair value on a recurring basis as of December 31, 2009 and 2010. The carrying values of financial instruments, which consist of cash and cash equivalents, investments, accounts receivable, prepaid expenses and other current assets, deposits paid for acquisition of subsidiaries, amount due from and due to related parties and accounts payable approximates their carrying value as of December 31, 2009 and 2010 due to their short-term nature. The Group does not use derivative instruments to manage risks.

**(r) Share-based Compensation**

The Company's share-based compensation with employees, such as restricted shares and share options, is measured at the grant date, based on the fair value of the award, and is recognized as expense over the requisite service period. The Company has made an estimate of expected forfeitures and is recognizing compensation cost only for those equity awards expected to vest.

The Group's total share-based compensation expense for the years ended December 31, 2008, 2009 and 2010 was \$42,615,166, \$66,503,134 and \$45,591,618, respectively.

The following table summarizes the share-based compensation recognized in the consolidated statements of operations:

	<u>For the years ended December 31,</u>		
	<u>2008</u>	<u>2009</u>	<u>2010</u>
Cost of sales	\$ 1,469,847	\$ 1,504,092	\$ 976,822
General and administrative	22,890,581	26,037,349	40,272,194
Selling and marketing	15,814,828	12,221,732	4,342,602
Net income (loss) from discontinued operations	<u>2,439,910</u>	<u>26,739,961</u>	<u>—</u>
<b>Total</b>	<b><u>\$42,615,166</u></b>	<b><u>\$66,503,134</u></b>	<b><u>\$45,591,618</u></b>

**(s) Income (Loss) per Share**

Basic income (loss) per share is computed by dividing income attributable to Focus Media Holdings Limited shareholders by the weighted average number of ordinary shares outstanding during the year. Diluted income (loss) per ordinary share reflects the potential dilution that could occur if securities or other contracts to issue ordinary shares were exercised or converted into ordinary shares and is calculated using the treasury stock method for stock options and unvested shares. Common equivalent shares for which the exercise price exceeds the average market price over the period have an anti-dilutive effect on income per share and, accordingly, are excluded from the calculation. Common equivalent shares are also excluded from the calculation in loss periods as their effects would be anti-dilutive.

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**(t) Non-controlling Interest**

As of December 31, 2009 and 2010, the majority of the Group's noncontrolling interest is attributable to the LCD display segment.

The following schedule shows the effects of changes in Focus Media's ownership interest in its subsidiaries on equity attributable to Focus Media:

	For the years ended December 31,		
	2008	2009	2010
Net income (loss) attributable to Focus Media	\$ (770,687,526)	\$ (213,257,044)	\$ 184,273,477
Transfers (to) from the non-controlling interest:			
Increase in Focus Media's additional paid-in capital due to partial disposal subsidiaries	—	1,391,800	3,817,579
Net transfers (to) from non-controlling interest	—	1,391,800	3,817,579
Change from net income attributable to Focus Media and transfers (to) from noncontrolling interest	<u>\$ (770,687,526)</u>	<u>\$ (211,865,244)</u>	<u>\$ 188,091,056</u>

**(u) Government grants**

Unrestricted government subsidies from local governmental agencies, which allow the Group full discretion in utilizing the funds, were \$13,864,412, \$14,024,545 and \$15,797,209 for the years ended December 31, 2008, 2009 and 2010, respectively, of which, \$13,542,415, \$11,122,063 and \$14,706,120 was recorded as other operating income in the consolidated statements of operations and \$321,997, \$2,902,482 and \$1,091,088 was related to discontinued operations.

**(v) Recently Issued Accounting Standards**

In January 2010, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2010-06, "Fair Value Measurements and Disclosures (Topic 820) — Improving Disclosures about Fair Value Measurements". The ASU amends ASC 820 (formerly SFAS 157) to add new requirements for disclosures about (1) the different classes of assets and liabilities measured at fair value, (2) the valuation techniques and inputs used, (3) the activity in Level 3 fair value measurements, and (4) the transfers between Levels 1, 2, and 3. The guidance in the ASU is effective for the first reporting period beginning after December 15, 2009. The adoption of the ASU did not have a material impact on the Group's financial statements, except for the requirement to provide the Level 3 activity of purchases, sales, issuances, and settlements on a gross basis, which will be effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. In the period of initial adoption, entities will not be required to provide the amended disclosures for any previous periods presented for comparative purposes. However, those disclosures are required for periods ending after initial adoption. Early adoption is permitted. The Group does not expect the adoption of the Level 3 guidance of this ASU to have a significant impact on its consolidated financial statements.

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". This ASU amends guidance for Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. 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. ASU 2010-28 is effective for fiscal years and interim periods beginning after December 15, 2010, with early adoption not permitted. The Group does not expect that the adoption of ASU 2010-28 will have a material impact on its financial position, results of operations, or cash flows.

In December 2010, the FASB issued ASU 2010-29, "Disclosure of Supplementary Pro Forma Information for Business Combinations". This ASU specifies that if a public company presents comparative financial statements, the entity should only disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting

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period. ASU 2010-29 is effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010, with early adoption permitted. The adoption of ASU 2010-29 will not impact the Group's financial position, results of operations, or cash flows.

**3. Variable Interest Entities**

The Group conducts substantially all of its operations through Focus Media Technology (Shanghai) Co., Ltd. and its subsidiaries (hereinafter collectively referred as "the PRC operating subsidiaries"). Due to PRC government restrictions that apply to foreign investment in China's advertising industry, the Group's advertising business has been historically conducted through contractual arrangements among the PRC operating subsidiaries and the VIEs, and their respective shareholders. Each of the contractual arrangements with the VIEs and their respective shareholders may only be amended with the approval of our audit committee or another independent body of the board of directors of the Company.

The following is a summary of the material provisions of these agreements.

***Transfer of Ownership When Permitted By Law***

The equity owners of the relevant VIEs have granted the relevant PRC operating subsidiary or its designee an exclusive option to purchase all or part of their equity interests in the relevant VIEs, or all or part of the assets of the relevant VIEs, for a purchase price equal to the registered capital of the relevant VIEs, or such higher price as required under PRC laws at the time of such purchase, at any time determined by the relevant PRC operating subsidiary and to the extent permitted by PRC law.

***Voting Arrangements***

The equity owners of the VIEs have granted an individual designated by the relevant PRC operating subsidiaries the right to appoint all of the directors and senior management of the VIEs and all of their other voting rights as shareholders of the VIEs, as provided under the articles of association of each such entity, to vote on their behalf on all matters, including matters related to the transfer of their respective equity interests in the VIEs and distributing dividends or other proceeds from the VIEs.

***Equity Pledge Agreements***

The equity owners pledge their respective equity interest in the relevant VIEs, to certain of the PRC operating subsidiaries to secure their obligations under the respective loan agreements between the relevant shareholder and PRC operating subsidiary, for the sole purpose of contributing or increasing the registered capital of the VIEs, and acquiring certain of the Company's regional distributors, respectively. Under these equity pledge agreements, each relevant shareholder has agreed not to transfer, assign, pledge or otherwise dispose of their interest in the relevant VIE, without the prior written consent of the relevant PRC operating subsidiary.

***Loan Agreements***

Loans were provided to the equity owners of the VIEs solely for the purpose of establishing or increasing the registered capital of the VIEs. The loans were granted without interest. The loans have 10-year duration and cannot be repaid before maturity without written approval from the lenders.

Through these arrangements, Focus Media Holding is deemed the primary beneficiary of the VIEs as it is able to exercise effective control over the VIEs and is entitled to receive effectively all economic benefits generated from the VIEs. As a result, Focus Media Holding has consolidated the VIEs for all periods presented.

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Summary financial information of the VIEs included in the accompanying consolidated financial statements is as follows:

	<u>As at December 31,</u>		
	<u>2009</u>	<u>2010</u>	
Cash and cash equivalents	\$ 30,303,514	\$ 10,835,318	
Accounts receivable, net of allowance for doubtful accounts of \$2,831,648 and \$1,044,492 in 2009 and 2010, respectively	3,325,186	9,127,339	
Rental deposits	2,350,506	10,412,099	
Other current assets	2,226,423	2,363,218	
<b>Total current assets</b>	<b>\$ 38,205,629</b>	<b>\$ 32,737,974</b>	
Rental deposits	606,662	1,466,145	
Equipment, net	1,863,087	2,158,832	
Acquired intangible assets, net	4,917,618	3,523,586	
Goodwill	395,414,397	397,840,137	
Other long-term assets	523,297	1,079,410	
<b>Total long-term assets</b>	<b>\$403,325,061</b>	<b>\$ 406,068,110</b>	
<b>Total assets</b>	<b>\$441,530,690</b>	<b>\$ 438,806,084</b>	
Accounts payable	4,410,602	4,340,424	
Accrued expenses and other current liabilities	7,234,408	10,635,394	
Income taxes payable	2,976,916	2,914,969	
Deferred tax liabilities	277,406	1,820,531	
<b>Total current liabilities</b>	<b>14,899,332</b>	<b>19,711,318</b>	
Total long-term liabilities	\$ 1,406,095	\$ 710,252	
<b>Total liabilities</b>	<b>\$ 16,305,427</b>	<b>\$ 20,421,570</b>	
	<u>For the year ended December 31,</u>		
	<u>2008</u>	<u>2009</u>	<u>2010</u>
Net revenues	\$ 16,975,524	\$ 12,837,242	\$ 21,491,910
Gross profit (loss)	(10,840,893)	(11,114,534)	(19,019,078)
<b>Net loss</b>	<b>\$ (39,360,463)</b>	<b>\$ (30,533,871)</b>	<b>\$ (35,930,035)</b>

#### 4. Acquisitions

##### 2009 acquisitions:

The Group did not make any significant acquisitions in 2009. The Group made aggregate cash payment of \$92,411,545 during the year ended December 31, 2009 as the result of consideration made to acquire the noncontrolling interests of certain subsidiaries in the year ended December 31, 2009, as well as resolved contingent considerations for prior year acquisitions. The Group recorded additional goodwill for resolved contingent consideration of \$81,847,808 during the year ended December 31, 2009, of which \$10.5 million was related to 2008 acquisitions.

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**2010 acquisitions:**

The Group acquired five entities in the poster-frame advertising business for fixed cash consideration of \$5,347,562 in aggregate in 2010. There was no contingent consideration related to these acquisitions. The Group recognized acquired intangible assets of \$1,192,206 and recognized goodwill of \$3,958,444, which was assigned to poster frame reporting unit.

In addition, the Group also made aggregate cash payment of \$34,839,122 during the year as the result of resolved contingent consideration for prior year acquisitions, of which \$14,249,427 was resolved in the prior year and recorded as acquisition payable in the prior year's balance sheet, and recorded additional goodwill of \$20,589,695 in 2010.

**5. Disposition****2009 Disposition**

In 2009, the Group aborted a contemplated initial public offering for its internet advertising segment due to the economic recession in late 2008. As a result, between August and December 2009, the Group disposed of six underperforming subsidiaries in that segment through a series of individual transactions with their respective original owners. Each of the subsidiaries was considered a component of the Group and their results have been included in discontinued operations in the consolidated statements of operations. The results of discontinued operations include net revenues and pretax losses of \$127,611,538 and \$45,384,077, respectively, related to these subsidiaries. The Group recorded a loss on disposal of \$44,054,471.

In 2009, the Group also disposed of five underperforming subsidiaries engaged in poster frame, LCD display and traditional outdoor billboard advertising services segments, none of which were considered a component of the Group. As such, all results of operations were included in operating activities for all periods presented. The Group recorded a loss on disposal of \$7,411,454.

**2010 Disposition**

In January 2010, certain employees and management of Allyes and certain members of the Company's management and directors entered into a definitive agreement with the Company and Allyes to buy an aggregate 38% interest in Allyes from the Company for cash consideration of \$13.3 million. On July 30, 2010, the Company sold its remaining 62% interest to a third party investor for cash consideration of \$124 million. Following the disposition of Allyes, the Group is no longer engaged in the internet advertising business and, therefore, the results of the internet advertising segment have been included in discontinued operations in the consolidated statements of operations for all periods presented. The results of discontinued operations include net revenues and profit before tax of \$80,599,956 and \$5,150,739, respectively, related to Allyes and its subsidiaries and affiliates. The Group recorded a gain on disposal of \$78,999,821 (net of \$2,763,041 transaction cost), which has been included as a component of discontinued operations. There were no remaining assets or liabilities associated with discontinued operations in the consolidated balance sheet as of December 31, 2010.

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

Cash and cash equivalents	\$ 40,665,131
Accounts receivable, net of allowance for doubtful accounts of \$3,312,436	59,394,176
Other current assets	8,942,748
Total current assets	109,002,055
Acquired intangible assets, net	12,003,843
Goodwill	4,272,498
Other long-term assets	2,903,049
Total long-term assets	19,179,390

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Total assets	<u>128,181,445</u>
Accounts payable	49,745,765
Accrued expenses and other current liabilities	14,283,603
Income taxes payable	4,105,786
Total current liabilities	<u>68,135,154</u>
Total long-term liabilities	1,704,794
Total liabilities	<u>69,839,948</u>
Noncontrolling interest	15,992,898
Accumulated other comprehensive income	4,729,725

#### 6. Fair Value Measurement

The Group did not have any assets or liabilities measured at fair value on a recurring basis subsequent to initial recognition as of December 31, 2009 or 2010. The Group's assets measured at fair value on a non-recurring basis for the years ended December 31, 2009 and 2010 included acquired intangible assets and goodwill in impairment test.

The fair value measurements for acquired intangible assets and goodwill are classified as Level 3 measurements. Determining the appropriate fair value model and calculating the fair value of these instruments requires the input of significant estimates and assumptions, some of which are unobservable. The estimates and assumptions include business assumptions, terminal value, discount rate, and tax amortization benefit.

#### 7. Accounts Receivable, Net

Accounts receivable, net of allowance for doubtful accounts of \$33,596,096 and \$21,088,503 for the years ended December 31, 2009 and 2010, respectively, consists of following:

	December 31,	
	2009	2010
Billed receivable	\$ 120,340,073	\$ 83,892,036
Unbilled receivable	52,412,400	73,436,707
<b>Total</b>	<b><u>\$ 172,752,473</u></b>	<b><u>\$ 157,328,743</u></b>

Unbilled receivables represent amounts earned under advertising contracts in progress but not billable at the respective balance sheet dates. These amounts become billable according to the contract term. The Group anticipates that substantially all of such unbilled amounts will be billed and collected within twelve months of the balance sheet dates.

An analysis of allowance for doubtful accounts for the years ended December 31, 2009 and 2010 is as follows:

	2009	2010
	Balance at beginning of year	\$ 4,395,022
Bad debt expenses	29,076,504	454,624

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	<u>2009</u>	<u>2010</u>
Recoveries and (write-offs), net	(6,047,299)	(10,393,667)
Reclassified from assets held-for-sale	9,617,466	—
Disposition of subsidiaries	(3,425,810)	(3,312,436)
Effect of exchange rate changes	(19,787)	743,886
<b>Balance at end of year</b>	<b><u>\$33,596,096</u></b>	<b><u>\$ 21,088,503</u></b>

### 8. Equipment, Net

Equipment, net consists of the following:

	<u>December 31,</u>	
	<u>2009</u>	<u>2010</u>
Media display equipment	\$ 165,254,415	\$ 191,447,959
Computers and office equipment	9,887,787	10,315,385
Leasehold improvements	1,558,213	2,025,582
Vehicles	974,293	1,245,472
<b>Total</b>	<b><u>177,674,708</u></b>	<b><u>205,034,398</u></b>
Less: accumulated depreciation and amortization	(100,013,561)	(136,147,602)
<b>Total</b>	<b><u>\$ 77,661,147</u></b>	<b><u>\$ 68,886,796</u></b>

The majority of the Group's display equipment is installed on premises of its location providers, such as residential complexes, commercial locations and stores.

Depreciation expense for the years ended December 31, 2008, 2009 and 2010 was \$31,241,513, \$35,004,686 and \$28,270,063, respectively, of which \$542,754, \$724,515 and \$355,004 was related to discontinued operations.

In 2009, the Group determined that it would cease expansion of its digital poster frame networks and, in response to a regulation promulgated by Shanghai Municipality Government in early 2009, the operation of its boat-based advertising platform on the Huangpu River. The Group recorded an aggregate impairment loss of \$40,318,817 of related equipment for the year ended December 31, 2009.

The Group did not incur impairment loss on equipment for the year ended December 31, 2010.

### 9. Acquired Intangible Assets, Net

As of December 31, 2009 and 2010, acquired intangible assets, net was comprised of the following:

	<u>December 31,</u>	
	<u>2009</u>	<u>2010</u>
<b>Cost:</b>		
Operation & broadcasting rights	\$ 11,115,667	\$ 11,460,583
Lease agreements	51,712,154	54,460,034
Customer base	24,730,269	24,013,585
Trademark	9,608,110	1,145,303
Acquired technology	1,130,605	—
Others	11,421,391	4,559,702
<b>Total</b>	<b><u>109,718,196</u></b>	<b><u>95,639,207</u></b>

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	December 31,	
	2009	2010
<b>Accumulated amortization:</b>		
Operation & broadcasting rights	(3,552,675)	(6,166,809)
Lease agreements	(31,854,695)	(43,298,789)
Customer base	(12,708,565)	(16,338,269)
Trademark	(1,110,834)	(1,145,303)
Acquired technology	(602,990)	—
Others	(8,111,222)	(4,527,994)
<b>Total</b>	<u>(57,940,981)</u>	<u>(71,477,164)</u>
<b>Intangible assets, net</b>	<b><u>\$ 51,777,215</u></b>	<b><u>\$ 24,162,043</u></b>

The Group recorded amortization expense as follows:

	For the years ended December 31,		
	2008	2009	2010
Cost of revenues	\$20,085,255	\$14,282,389	\$12,734,069
Selling and marketing	7,556,965	4,664,850	4,106,231
Gain or (loss) from discontinued operations	12,446,394	8,331,505	765,859
<b>Total</b>	<b><u>\$40,088,614</u></b>	<b><u>\$27,278,744</u></b>	<b><u>\$17,606,159</u></b>

For the year ended December 31, 2008, the Group recorded an impairment loss on its intangible assets in the amount of \$4,810,987 associated with the Target Media brand due to management's decision to accelerate phasing out the brand from the Group's LCD display segment. As a result of termination of the mobile handset advertising services, the Group wrote off \$14,604,566 of remaining intangible assets which has been classified as loss on disposal of subsidiaries. Upon the disposal of CGEN Digital Media Company Limited and its consolidated subsidiaries and affiliates ("CGEN", acquired in January 2008 and disposed in December 2008), the Group wrote off \$39,457,262 of intangible assets.

In 2009, in response to a regulation promulgated by Shanghai Municipality Government in early 2009, the Group determined to cease the operation of its boat-based advertising platform on the Huangpu River. Accordingly, the Group recorded an impairment loss of \$3,168,472 to write off the associated operating and broadcasting rights of its LCD display segment. In addition, a \$22,268,615 impairment loss was recorded for the acquired intangible assets for certain subsidiaries in internet advertising segment that were underperforming. The impaired intangible assets primarily consisted of technology, lease agreements, customer base and trademark. The valuation of technology, lease agreements, and customer base was developed through the application of a form of income approach, known as the excess earnings method. The first step in applying the excess earnings method was to estimate the future debt-free net income attributable to the intangible asset. The resulting debt-free net income was then reduced by an estimated fair rate of return on contributory assets necessary to realize the projected earnings attributable to the intangible asset. These assets include fixed assets, working capital and other intangible assets. The valuation of the trademark was based on the relief from royalty method whereby an asset is valued based upon the after-tax cash flow savings accruing to the owner by virtue of the fact that the owner does not have to pay a "fair royalty" to a third party for the use of that asset. Accordingly, a portion of the owner's earnings, equal to the after-tax royalty, would have been paid for use of the asset that can be attributed to the asset. The value of the asset depends on the present worth of future after-tax royalties attributable to the asset to their present worth at market-derived rates of return appropriate for the risks of that particular asset.

Total impairment loss recorded for the year ended December 31, 2009 amounted to \$25,437,087, of which \$21,459,807 was related to discontinued operations. The Group did not incur impairment loss on acquired intangible assets for the year ended December 31, 2010.

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The Group expects to record amortization expense of \$13,857,578, \$7,125,284, \$1,966,988, \$575,670, and \$541,556 for the years ending December 31, 2011, 2012, 2013, 2014 and 2015, respectively.

**10. Goodwill**

The Group's goodwill primarily arises from the initial consideration paid and, for those acquisitions made prior to January 1, 2009, subsequent settlement of contingent consideration of our acquisitions. The changes in the carrying amount of goodwill by segment for the years ended December 31, 2009 and 2010 are as follows:

	LCD display network	Poster frame network	Internet advertising	Movie theater & traditional outdoor billboards	Total
<b>Balance as of January 1, 2009</b>	\$ —	\$ —	\$ 30,699,525	\$ —	\$ 30,699,525
Goodwill acquired during the year	1,100,903	—	—	—	1,100,903
Goodwill recorded as a result of contingent consideration resolved	1,992,683	30,396,719	16,208,898	33,249,508	81,847,808
Modification of original purchase price allocation	—	—	193,266	—	193,266
Goodwill impairment	—	(30,396,719)	(23,961,974)	(33,249,508)	(87,608,201)
Reclassified from assets held for sale	402,742,395	—	—	—	402,742,395
Disposal of subsidiaries	—	—	(18,867,217)	—	(18,867,217)
Translation adjustments	260,212	—	—	—	260,212
<b>Balance as of December 31, 2009</b>	406,096,193	—	4,272,498	—	410,368,691
Goodwill acquired during the year	—	3,958,444	—	—	3,958,444
Goodwill recorded as a result of contingent consideration resolved	5,038,676	15,551,019	—	—	20,589,695
Goodwill impairment	—	(5,736,134)	—	—	(5,736,134)
Disposal of subsidiaries	—	—	(4,272,498)	—	(4,272,498)
Translation adjustments	399,355	27,079	—	—	426,434
<b>Balance as of December 31, 2010</b>	<u>\$ 411,534,224</u>	<u>\$ 13,800,408</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 425,334,632</u>

The gross amount and accumulated impairment losses by segment as of December 31, 2009 and 2010 are as follows:

	LCD display network	Poster frame network	Internet advertising	Movie theater & traditional outdoor billboards	Total
Goodwill, gross	\$ 406,158,216	402,660,409	\$ 245,368,810	\$ 24,836,040	\$ 1,079,023,475
Accumulated impairment losses	(62,023)	(402,660,409)	(241,096,312)	(24,836,040)	(668,654,784)
<b>Balance as of December 31, 2009</b>	<u>\$ 406,096,193</u>	<u>\$ —</u>	<u>\$ 4,272,498</u>	<u>\$ —</u>	<u>\$ 410,368,691</u>

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	<u>LCD display network</u>	<u>Poster frame network</u>	<u>Internet advertising</u>	<u>Movie theater &amp; traditional outdoor billboards</u>	<u>Total</u>
Goodwill, gross	\$ 411,596,247	422,196,951	\$ —	\$ 24,836,040	\$ 858,629,238
Accumulated impairment losses	(62,023)	(408,396,543)	—	(24,836,040)	(433,294,606)
<b>Balance as of December 31, 2010</b>	<b><u>\$ 411,534,224</u></b>	<b><u>\$ 13,800,408</u></b>	<b><u>\$ —</u></b>	<b><u>\$ —</u></b>	<b><u>\$ 425,334,632</u></b>

Management performs a goodwill impairment test for each of its reporting units as of December 31 of each year or when there is a triggering event causing management to believe it is more likely than not that the carrying amount of goodwill may be impaired. As a result of impairment tests, the Group recorded a goodwill impairment loss of \$87,608,201 and \$5,736,134, of which \$23,961,974 and nil was related to the discontinued operations for the years ended December 31, 2009 and 2010, respectively.

**Goodwill impairment in 2009**

On September 28, 2009, the Company and SINA jointly decided to abort the proposed acquisition announced on December 22, 2008. As such, the disposal group classified as held-for-sale as of December 31, 2008 were reclassified as assets to be held and used. At the time of reclassification, the assets were required to be measured at the lower of (1) their carrying amount before they were classified as held-for-sale, adjusted for any depreciation or amortization that would have been recognized had the assets been continuously classified as held and used or (2) their fair value at the date of reclassification. Certain of the reclassified assets had a fair value lower than their carrying value, which the Group believed was a goodwill impairment indicator. Accordingly, the Group performed an impairment test using the income approach valuation method on the two segments subjected to reclassification, LCD display and poster frame, which were also deemed as reporting units for the purpose of goodwill impairment test. The tests resulted in an impairment of \$16,369,331 representing all the poster frame reporting unit's remaining goodwill. This goodwill was the result of the settlement of contingent consideration while the associated reporting unit was classified as held-for-sale. The LCD display network passed the first step of impairment with fair value exceeding the carrying amount by a substantial margin and therefore, incurred no impairment loss.

In the fourth quarter of 2009, the Group paid further contingent consideration of \$14,027,388 related to the poster frame network reporting unit. The contingent consideration for the poster frame units was calculated based on the achieved earnings targets, which were determined at the time of the acquisitions. This amount was recorded as additional goodwill and was immediately impaired as there had been no material changes in the fair value of the reporting unit subsequent to September 28, 2009, the most recent impairment analysis date before December 31, 2009. The impairment test for goodwill arising from poster frame acquisitions was performed for the whole reporting unit rather than for each individual subsidiary. As a result, when the reporting unit's fair value, which is based on management's forecasted operating results for the reporting unit as a whole, declined significantly due to contracting customer demand caused by the financial crisis and increased competition, the additional goodwill arising from such contingent consideration was impaired even though individual subsidiaries were able to meet their respective earnings targets. The balance of goodwill for the poster frame reporting unit remained at zero at December 31, 2009.

The annual impairment test for the LCD display reporting unit at December 31, 2009 did not result in additional goodwill impairment as there had been no material changes in the fair value of this unit subsequent to the date of the last impairment test on September 28, 2009.

In August 2009, the Group started to negotiate with the ex-shareholders of various subsidiaries within the internet advertising reporting unit to sell back part of the equity interests held by the Group in those entities, in

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exchange for the reduction of future earn-out payments stated in the original purchase agreements. These transactions were considered a triggering event for performing an impairment test for the internet advertising division, which was the reporting unit for the purpose of the goodwill impairment test. As a result of the test, the Group recorded a goodwill impairment of \$23,961,974. Subsequently, the Group disposed of these subsidiaries, which resulted in derecognition of goodwill amounting to \$18,867,217. This amount has been classified within the loss from discontinued operations in the consolidated statements of operations.

As of December 31, 2009, the internet advertising reporting unit had a goodwill balance of \$4,272,498. The Group performed its annual impairment test at the end of the year, which indicated that the fair value exceeded the carrying amount by a significant margin and, therefore, no further goodwill impairment was recognized.

The Group settled contingent purchase consideration of \$33,249,508 associated with the movie theatre and traditional outdoor billboard reporting unit, respectively, during the year ended December 31, 2009. These amounts were recorded as additional goodwill and were immediately impaired as there had been no material changes in the fair value of the reporting unit subsequent to December 31, 2008, the most recent impairment analysis date, which was still lower than the carrying amount of the reporting unit on December 31, 2009. The balance of goodwill for the movie theatre and traditional outdoor billboard reporting unit remained at zero at December 31, 2009.

The Group applied the income approach to estimate the fair value of its reporting units for goodwill impairment tests. The key assumptions used in this approach, which requires significant management judgment, include business assumptions, growth rate, terminal value, discount rate, and tax amortization benefit.

#### **Goodwill impairment in 2010**

The Group settled contingent purchase consideration of \$5,736,134 associated with the poster frame network reporting unit during the three months ended March 31, 2010. The amount was recorded as additional goodwill and was immediately impaired as there had been no material changes in the fair value of the poster frame network reporting unit subsequent to December 31, 2009, the most recent impairment analysis date, which was still lower than the carrying amount of the poster frame network reporting unit on March 31, 2010.

The Group further settled contingent purchase consideration of \$5,038,676 and \$9,814,885 associated with the LCD display network and poster frame reporting units during 2010. The Group's annual impairment test was performed for both reporting units using the income approach valuation method as of December 31, 2010, which indicated that the fair value of both reporting units significantly exceeded their carrying amounts. Therefore, no goodwill impairment was recognized.

#### **11. Accrued Expenses and Other Current Liabilities**

Accrued expenses and other current liabilities consist of the following:

	<u>December 31,</u>	
	<u>2009</u>	<u>2010</u>
Accrued sales commissions and rebate payable	\$ 18,690,726	\$ 45,623,926
Other accrued expenses	3,348,885	4,152,385
Other taxes payable	16,514,074	25,587,764
Advance from customers	27,807,586	26,292,405
Accrued employee payroll and welfare	6,047,975	5,492,293
Payables related to acquisitions	20,326,014	4,920,493
Withholding individual PRC income tax	1,115,360	1,155,464
Accrual for litigation (see Note 17)	5,500,000	—
Payables related to share repurchase	—	2,996,074
Others	2,519,550	5,542,718
<b>Total</b>	<b><u>\$ 101,870,170</u></b>	<b><u>\$ 121,763,522</u></b>

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**12. Other operating (income) expenses, net**

Other operating (income) expenses, net consists the following:

	For the years ended December 31,		
	2008	2009	2010
Loss on disposal of subsidiaries	\$ 192,529,635	\$ 7,411,454	\$ 1,544,922
Government subsidy income	(13,542,415)	(11,122,063)	(14,706,120)
Loss on disposal of equipment	2,302,294	—	248,785
Impairment of other long lived assets	—	14,714,157	—
Penalty for termination of contract	—	1,872,155	—
Other income	(5,307,652)	(5,199,764)	(1,771,691)
Other expenses	7,131,445	5,435,104	540,159
<b>Total</b>	<b>\$ 183,113,307</b>	<b>\$ 13,111,043</b>	<b>\$ (14,143,945)</b>

**13. Share-based Compensation***Share-based Compensation Plans for the Group*

In October 2006, the Group adopted the 2006 Employee Share Option Plan (“2006 Plan”), under which the Group may issue no more than 3.6% of issued ordinary shares for grant of options. In November 2007, the Group’s 2007 Employee Share Option Scheme (“2007 Plan”) was authorized, under which the Group is authorized to grant options or share appreciation rights or restricted shares to purchase up to 5% of the Group’s issued and outstanding ordinary shares from time to time in the three years following the date of enactment of 2007 Plan. In December 2010, the 2010 Employee Share Option Plan (“2010 Plan”) was authorized, under which the Group may issue incentive shares equal to no more than 5% of the issued share capital of the Company, outstanding from time to time, including stock options and restricted shares to Company’s employees, officers, consultants and directors.

In 2008, options to purchase 26,529,625 ordinary shares were authorized and granted under 2007 Plan, of which 10,138,625 options were granted concurrently with the cancellation of 21,724,685 options granted during the period from October 3, 2007 to July 25, 2008 (“2008 Replacement”). This was accounted for as a modification with no incremental compensation cost as the fair value of the options immediately before modification was higher than the fair value of the modified options.

On September 22, 2009, as a result of performance evaluations, 1,776,300 of the 2008 Replacement options were cancelled and previously unrecognized compensation cost of \$2,587,993 was recognized on the cancellation date. In addition, 7,550,849 of the 2008 Replacement options, associated with 300 employees, were cancelled and replaced by an equivalent number of unvested restricted shares (“2009 Replacement”). This was accounted for as a modification with the incremental compensation cost of \$8,122,206, which was measured as the excess of the fair value of the restricted shares over the fair value of the cancelled options at the cancellation date. Further, restricted shares to obtain 28,935,131 ordinary shares were granted to employees in 2009. The restricted shares generally vest over a period of two to three years.

On December 28, 2010, restricted shares to obtain 15,000,000 ordinary shares were granted to employees, officers, consultants and directors. These restricted shares will vest over a period of three years.

Under the terms of each plan, options are generally granted at prices equal to the fair market value of the ordinary shares at the date of grant whereas restricted shares are granted without exercise price, expire 10 years from the date of grant and generally vest over two to four years with certain options vesting over one year. As of

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December 31, 2010, 11,962,045 options and 38,957,925 restricted shares were outstanding. The fair value of restricted shares was determined to be the market value of the ordinary shares on the date of grant whereas the fair value of options granted to employees was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

<b>Options granted to employees:</b>	<b>2008</b>	<b>2009</b>
Risk-free rate of return	1.59%-3.2%	0.87%
Weighted average expected option life	2.5 to 4 years	2.5 years
Volatility rate	53%-68.88%	88.32%
Dividend yield	0%	0%

The expected volatilities were estimated based on historical volatility. The expected term of options granted represents the period of time that options granted are expected to be outstanding. The risk-free interest rate assumption is determined using the Federal Reserve nominal rates for U.S. Treasury zero-coupon bonds with maturities similar to those of the expected term of the award. The weighted average fair value of share options granted for the years ended December 31, 2008 was \$1.85 and the weighted average fair value of restricted shares granted for the year ended December 31, 2009 and 2010 were \$2.24 and \$4.24, respectively.

A summary of the share option activities for the year ended December 31, 2010 is as follows:

	<b>Weighted Number of shares</b>	<b>Weighted average exercise price</b>	<b>Remaining weighted average contract term (in years)</b>	<b>Aggregate intrinsic value</b>
Options outstanding at January 1, 2010	15,642,620	\$ 4.75		
Forfeited	(3,261,095)	\$ 5.28		
Exercised	(419,480)	\$ 1.24		
<b>Options outstanding at December 31, 2010</b>	<b>11,962,045</b>	<b>\$ 4.33</b>	<b>5.31</b>	<b>\$ 9,440,167</b>
Options exercisable at December 31, 2010	11,962,045	\$ 4.33	5.31	\$ 9,440,167
Options vested or expected to vest at December 31, 2010	11,962,045	\$ 4.33	5.31	\$ 9,440,167

A summary of the restricted share activities for the year ended December 31, 2010 is as follows:

	<b>Weighted Number of shares</b>	<b>Weighted Average Fair value</b>
Restricted shares unvested at January 1, 2010	<b>36,448,980</b>	<b>\$ 2.24</b>
Granted	15,000,000	\$ 4.24
Vested	(12,491,055)	\$ 2.24
<b>Restricted shares unvested at December 31, 2010</b>	<b>38,957,925</b>	<b>\$ 3.00</b>

The total intrinsic value of options exercised during the years ended December 31, 2008, 2009 and 2010 was \$26,151,593, \$4,086,489 and \$1,283,299, respectively.

As of December 31, 2010, there was \$88,741,294 in total unrecognized compensation expense related to unvested share-based compensation arrangements which is expected to be recognized over a weighted-average period of 2.04 years.

*Private equity placement with JJ Media Investment Holding*

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On September 23, 2009, the Company entered into a definitive agreement for a private equity placement of 75 million of its ordinary shares with JJ Media Investment Holding (“JJ Media”), a British Virgin Island company controlled by Jiang Nan Chun, the Group’s Chief Executive Officer and Chairman, for a purchase price of \$1.899 per share, representing the average closing price of the shares during the twenty consecutive trading days preceding the signing of the definitive agreement. On November 18, 2009, the private equity placement was consummated and the Company received gross proceeds of \$142,425,500. The shares issued to JJ Media are subject to a six month lock-up and have customary registration rights pursuant to a registration rights agreement entered into between the Company and JJ Media. This transaction resulted in share based compensation expense of \$4.0 million, which represents the excess of the fair value of the Company’s shares over the purchase price. The fair value of the Company’s shares reflects the Company’s closing share price on the trading day immediately preceding the signing date of the definitive agreement.

**14. Income Taxes**

*Cayman Islands*

Under the current laws of the Cayman Islands, the Company is not subject to tax on income or capital gain. In addition, upon payment of dividends by the Company to its shareholders, no Cayman Islands withholding tax will be imposed.

*British Virgin Islands*

The Company’s subsidiaries incorporated in the BVI are not subject to taxation.

*Hong Kong*

Focus Media (China) Holding Ltd. is subject to Hong Kong profit tax at a rate of 16.5% on its assessable profit. No Hong Kong profit tax has been provided as the Group does not have assessable profit that is earned in or derived from Hong Kong during the years presented.

*PRC*

Prior to January 1, 2008, pursuant to the PRC Income Tax Laws, the Company’s subsidiaries and VIEs were generally subject to Enterprise Income Tax (“EIT”) at a statutory rate of 33%, which comprised 30% national income tax and 3% local income tax.

On January 1, 2008, a new EIT law (“New Law”) in China took effect. The New Law applies a uniform 25% EIT rate to both foreign invested enterprises and domestic enterprises. The New Law provides a five-year transition period from its effective date for those enterprises which were established before the promulgation date of the New Law and which were entitled to a preferential tax treatment under the PRC Income Tax Laws, such as a reduced tax rate or a tax holiday.

On December 26, 2007, the State Council issued the Notice of the State Council Concerning Implementation of Transitional Rules for Enterprise Income Tax Incentives (“Circular 39”). Based on Circular 39, certain specifically listed categories of enterprises which enjoyed a preferential tax rate of 15% are eligible for a graduated rate increase to 25% over the 5-year period beginning from January 1, 2008. Specifically, the applicable rates under such an arrangement for such enterprises would be 18%, 20%, 22%, 24% and 25% for 2008, 2009, 2010, 2011, 2012 and thereafter, respectively. Preferential tax treatments will continue to be granted to industries and projects that are strongly supported and encouraged by the state, and enterprises that qualify as “new and high technology enterprises strongly supported by the state (“HNTE”) under the New Law will be entitled to a 15% preferential EIT rate.

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On the same date, the State Council also issued the Notice of the State Council concerning Implementation of Transitional Tax Incentives for HNTE newly-established in Special Economic Zones and Shanghai Pudong New Area (“Circular 40”), which provides guidance of the income tax incentives for high tech companies established in the Special Economic Zones and Shanghai Pudong New Area, which enterprise income tax is exempted for the first and second year and levied at half-rate of 25% statutory rate from the third to fifth year.

Most of the Company’s subsidiaries and VIEs transitioned from 33% to 25%, effective January 1, 2008. Those that enjoyed a lower tax rate of 15% as high-tech companies under the PRC Income Tax Laws will transition to the uniform tax rate of 25% from 2008 unless they obtain the HNTE status under the New Law. The Group has thus generally applied the 25% rate in calculating its deferred tax balances. Subsidiaries and VIEs with temporary differences reversing during the holiday period have used the reduced rates in calculating their deferred tax balance.

Among the subsidiaries and VIEs, Beijing Focus Media Wireless Co., Ltd. and Beijing Kong Zhong Hui Ke Technology Co., Ltd., qualified for the transitional rule under Circular 39 and thus enjoyed 0% for 2008 and enjoy a 50% reduction off the transitional tax rate from 2009 through 2011 based on the transitional rule under the New Law. The Company’s 100% owned subsidiary, Focus Media Information Technology (China) Co., Ltd. was incorporated on August 22, 2008 in Shanghai Pudong New Area, and obtained the HNTE qualification on June 22, 2010. Therefore, Focus Media Information Technology (China) Co., Ltd. is exempted from EIT for the two years ended December 31, 2010 and 2011 and enjoys a 50% reduction off the statutory rate from 2012 through 2014.

The Group classifies interest and penalties relating to income tax matters within income tax expense. The amount of penalties and interest recorded as of December 31, 2009 and 2010 is immaterial. The Group decreased its liabilities for unrecognized tax benefits by \$592,525 and \$nil in connection with effective settlement of prior-year tax uncertainties during the years ended December 31, 2009 and 2010, respectively. The Group does not anticipate any significant increases or decreases to its liability for unrecognized tax benefits within the next 12 months.

<b>Balance at January 1, 2008</b>	<b>\$ 8,232,713</b>
Settlements	(3,080,251)
Gross increases-interest accrual	101,926
Transfer to liabilities held for sale	(4,723,905)
Translation adjustment	25,286
<b>Balance at December 31, 2008</b>	<b>\$ 555,769</b>
Transfer from liabilities held for sale	4,723,905
Settlements	(592,525)
Disposition of subsidiaries	(342,250)
Translation adjustment	167,054
<b>Balance at December 31, 2009</b>	<b>\$ 4,511,953</b>
Translation adjustment	140,005
<b>Balance at December 31, 2010</b>	<b>\$ 4,651,958</b>

According to the PRC Tax Administration and Collection Law, the statute of limitations is generally three years if the underpayment of taxes is due to computational errors made by the taxpayer. The statute of limitations will be extended to five years under special circumstances, which are not clearly defined, but an underpayment of tax liability exceeding RMB100,000 (approx. \$15,000 under the current exchange rate) is specifically listed as a special circumstance. In the case of a transfer pricing related adjustment, the statute of limitations is 10 years. There is no statute of limitations in the case of tax evasion. The status of limitations in Hong Kong is six years.

*Composition of income tax expense*

All of the Group’s income subject to income tax is generated within the PRC. The current and deferred portion of income tax expense (benefit) included in the consolidated statements of operations is as follows:

	For the years ended December 31,		
	2008	2009	2010
Current income tax expense	\$32,133,257	\$ 8,390,910	\$21,970,299
Deferred income tax expense (benefit)	(6,855,130)	5,389,155	365,280
	<b>\$25,278,127</b>	<b>\$13,780,065</b>	<b>\$22,335,579</b>

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A reconciliation of the differences between statutory tax rate and the effective tax rate is as follows:

	For the years ended December 31,		
	2008	2009	2010
Statutory rate	25.00%	25.00%	25.00%
Effect of different tax rate of group entities operation in other jurisdiction	(3.17%)	(16.73%)	10.90%
Effect of different tax rate applicable to the subsidiaries and VIEs	0.96%	4.49%	(4.75%)
Effect of tax holiday	3.30%	3.46%	(13.22%)
Effect of non-deductible expenses	(33.38%)	(36.07%)	11.04%
Change in valuation allowance	1.47%	2.82%	(11.18%)
Additional tax paid due to conclusion of tax audit	(0.51%)	—	—
Others	0.65%	0.70%	—
<b>Effective tax rate</b>	<b>(5.68%)</b>	<b>(16.33%)</b>	<b>17.79%</b>

The following table sets forth the effects of the tax holidays granted to the entities of the Group for the periods presented:

	December 31,		
	2008	2009	2010
Tax holiday effect	\$ 16,460,124	\$ 3,142,974	\$ 16,593,568
Net income from continuing operations per share effect — basic	\$ 0.03	\$ 0.01	\$ 0.02
Net income from continuing operations per share effect — diluted	\$ 0.03	\$ 0.01	\$ 0.02

The principal components of the Group's deferred income tax assets and liabilities, excluding assets held-for-sale are as follows:

	December 31,	
	2009	2010
<b>Deferred tax assets:</b>		
Net operating loss carry forwards	\$ 11,710,958	\$ 4,677,149
Accrued expenses temporarily non-deductible	6,181,962	14,078,803
Bad debt provision	2,220,947	3,297,574
Difference in fixed assets basis	11,056,535	8,379,571
Others	1,152,928	4,915,559
<b>Total Deferred Tax Assets</b>	<b>32,323,330</b>	<b>35,348,656</b>
Valuation allowance on deferred tax assets	(18,278,239)	(5,183,171)
<b>Net deferred tax assets</b>	<b>\$ 14,045,091</b>	<b>\$ 30,165,485</b>

**Classified as:**

Current deferred tax assets	3,651,221	22,979,021
Non-current deferred tax assets	10,393,870	7,186,464

**Deferred tax liabilities:**

Difference in intangible asset basis	2,839,571	1,361,645
Unbilled revenue	10,881,604	20,651,695
Interest or subsidy income receivables	2,583,580	8,666,757
Others	1,207,705	2,945,307
<b>Total deferred tax liabilities</b>	<b>\$ 17,512,460</b>	<b>\$ 33,625,404</b>

**Classified as:**

Current deferred tax liabilities	12,077,282	23,627,893
Non-current deferred tax liabilities	5,435,178	9,997,511

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As of December 31, 2010, the Group had net operating loss carry forwards of \$18,722,908 that can be used against future taxable income. The net operating loss carry forwards will expire if unused in the years ending December 31, 2011 through 2015. The Group operates through multiple subsidiaries and the valuation allowance is considered on an individual subsidiary basis. Where a valuation allowance was not recorded, the Group believes that there was sufficient positive evidence to support its conclusion not to record a valuation allowance as it expects to generate sufficient taxable income in the future.

The valuation allowance in 2010 has been decreased compared with that of 2009 as the Group has generated taxable income to utilize certain deferred tax assets for the year ended December 31, 2010 and expects to utilize them in the coming years.

Undistributed earnings of the Group's PRC subsidiaries and PRC affiliates of approximately \$650 million at December 31, 2010 are considered to be indefinitely reinvested and, accordingly, no provision for PRC dividend withholding tax has been provided thereon. Upon distribution of post-January 1, 2008 earnings, in the form of dividends or otherwise in the future, the Group would be subject to the then applicable PRC tax laws and regulations.

#### 15. Net Income (loss) per Share

The following table sets forth the computation of basic and diluted income per share for the years indicated:

	Years ended December 31,		
	2008	2009	2010
Income (numerator):			
Net income (loss) from continuing operations	\$ (470,167,005)	\$ (98,120,236)	\$ 103,186,528
Net income (loss) from discontinued operations	<u>(300,670,962)</u>	<u>(111,612,420)</u>	<u>83,077,575</u>
Income attributable to Focus Media Holding Limited Shareholders	<u>\$ (770,687,526)</u>	<u>\$ (213,257,044)</u>	<u>\$ 184,273,477</u>
Shares (denominator):			
Weighted average ordinary shares outstanding used in computing basic income per share	643,989,522	651,654,345	707,846,570
Plus incremental weighted average ordinary shares from assumed conversions of stock options and restricted shares using treasury stock method	<u>—</u>	<u>—</u>	<u>23,811,695</u>
Weighted average ordinary shares outstanding used in computing diluted income per share	<u>643,989,522</u>	<u>651,654,345</u>	<u>731,658,265</u>
Income (loss) per share from continuing operations — basic	<u>\$ (0.73)</u>	<u>\$ (0.15)</u>	<u>\$ 0.15</u>
Income (loss) per share from continuing operations — diluted	<u>\$ (0.73)</u>	<u>\$ (0.15)</u>	<u>\$ 0.14</u>
Income (loss) per share from discontinued operations — basic	<u>\$ (0.47)</u>	<u>\$ (0.17)</u>	<u>\$ 0.12</u>
Income (loss) per share from discontinued operations — diluted	<u>\$ (0.47)</u>	<u>\$ (0.17)</u>	<u>\$ 0.11</u>
Net income per share — basic	<u>\$ (1.20)</u>	<u>\$ (0.33)</u>	<u>\$ 0.26</u>
Net income per share — diluted	<u>\$ (1.20)</u>	<u>\$ (0.33)</u>	<u>\$ 0.25</u>

For the years ended December 31, 2008, 2009 and 2010 the Group had 32,840,540, 15,642,620 and 7,036,260 share options and nil, 36,448,980 and 13,620,000 restricted shares outstanding, respectively, which could potentially dilute basic earnings per share in the future, but which were excluded from the computation of diluted net income per share in the years presented, as their effects would have been anti-dilutive.

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#### 16. Mainland China Contribution Plan and Profit Appropriation

Full time employees of the Group in the PRC participate in a government-mandated multiemployer defined contribution plan pursuant to which certain pension benefits, medical care, unemployment insurance, employee housing fund and other welfare benefits are provided to employees. PRC labor regulations require the Group to accrue for these benefits based on certain percentages of the employees' salaries. The total contribution for such employee benefits was \$8,479,072, \$8,873,914 and \$8,298,074 for the years ended December 31, 2008, 2009 and 2010, respectively, including \$2,154,085, \$2,681,155, and \$1,103,397 from discontinued operations.

Pursuant to laws applicable to entities incorporated in the PRC, the Group's PRC subsidiaries and PRC affiliates must make appropriations from after-tax profit to non-distributable reserve funds. These reserve funds include one or more of the following: (i) a general reserve, (ii) an enterprise expansion fund and (iii) a staff bonus and welfare fund. Subject to certain cumulative limits, the general reserve fund requires annual appropriations of 10% of after-tax profit (as determined under accounting principles generally accepted in the PRC at each year-end) until such cumulative appropriation reaches 50% of the registered capital; the other fund appropriations are at the Group's discretion. These reserve funds can only be used for specific purposes of enterprise expansion and staff bonus and welfare and are not distributable as cash dividends. The Group's subsidiaries and affiliates have allocated annual after-tax profits to each of their respective funds in compliance with these laws and regulations. For the years ended December 31, 2008, 2009 and 2010, the Group made total appropriations of \$4,665,681, \$10,765,735 and \$21,211,346, respectively.

As a result of these PRC laws and regulations, as of December 31, 2010, the Group's PRC subsidiaries and PRC affiliates are restricted in their ability to transfer \$179,468,628 of their net assets to Focus Media Holding in the form of dividends, loans or advances.

#### 17. Commitments and Contingencies

##### {a} Leases commitments

The Group has entered into certain leasing arrangements relating to the placement of the flat-panel television screens, poster frames and outdoor billboards in various locations, as well as advertisement time slots on movie screens prior to movie screening, where the Group operates the networks and in connection with the lease of the Group's office premises. Rental expense under operating leases for the years ending December 31, 2008, 2009 and 2010 were \$153,755,774, \$117,914,221 and \$134,658,367, respectively.

Future minimum lease payments under non-cancelable operating lease agreements were as follows:

	<b>For the year ended December 31,</b>
2011	\$ 95,118,120
2012	37,208,700
2013	7,675,497
2014	2,831,227
2015 and thereafter	431,061
<b>Total</b>	<b>\$ 143,264,605</b>

##### {b} Legal proceedings

The Group is a defendant in ongoing lawsuits as described below:

- 1) On November 27, 2007, Eastriver Partners, Inc. filed a purported class action lawsuit in the United States District Court for the Southern District of New York against the Group and the underwriters of the Group's offering filed in November 2007.

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- 2) On December 21, 2007, Scott Bauer filed a purported class action lawsuit in the United States District Court for the Southern District of New York against the Group, certain of the Group's officers and directors, and the underwriters of the Group's offering filed in November 2007.

Both complaints allege that the Group's registration statement on Form F-1 on November 1, 2007 as amended, and the related prospectus contained inaccurate statements of material fact. The Group has meritorious defenses to the claims alleged and intends to defend against these lawsuits vigorously. On March 29, 2010, the court issued an opinion granting the Group's motion to dismiss. On March 30, 2010, the court entered a judgment dismissing the case. The plaintiffs filed a notice of appeal on April 29, 2010 appealing the judgment granting our motion to dismiss. The Group intends to continue to defend against these lawsuits vigorously as the Group believes they have meritorious defenses to the alleged claims.

On February 11, 2008, Ying Ping, a PRC citizen, filed an arbitration application in Beijing with China International Economic and Trade Arbitration Commission ("CIETAC") against the Group, requesting the Group, (i) to continue to perform a Share Purchase Agreement, dated as of March 20, 2008, between Ying Ping and the Company; (ii) to pay an overdue share purchase price in the amount of \$15.6 million and accrued interests thereof; and (iii) to bear their legal counsel fee in the amount of \$0.3 million and other relevant arbitration costs. The CIETAC accepted Ying Ping's application for arbitration on February 24, 2009. On March 10, 2010, the arbitration was settled. As a result, the Group agreed to pay \$5.5 million to settle all claims.

**18. Segment Information**

The Group is mainly engaged in selling advertising time slots on its network of flat-panel television advertising displays located in high traffic areas such as commercial locations and in-store network. The Group is also engaged in providing advertising services on poster frames, on screens in movie theatres and on traditional outdoor billboards.

The Group's chief operating decision maker ("CODM") has been identified as the Chief Executive Officer, who reviews consolidated results when making decisions about allocating resources and assessing performance of the Group. The Group uses the management approach to determine the operating segments. The management approach considers the internal organization and reporting used by the Group's CODM for making decisions, allocating resources and assessing the performance. The Group has determined that it has four reporting segments, which are LCD display network, in-store network, poster frame network, movie theater and traditional outdoor billboards. These segments all derive their revenues from the sale of advertising services. Prior to the disposition of Allyes as described in Note 1, the Group had five reporting segments, including internet advertising, which was reclassified to discontinued operations for all periods presented. Accordingly, the Group has retroactively amended its segment disclosure for 2008 and 2009.

The Group's CODM does not assign assets to these segments. Consequently, it is not practical to show assets by reportable segment. The following table presents selected financial information relating to the Group's segments:

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2010:

	<u>LCD</u>	<u>In-store</u>	<u>Poster frame network</u>	<u>Movie theater and traditional outdoor billboards</u>	<u>Eliminations</u>	<u>Total</u>
Net revenue — external	\$ 297,641,916	\$ 37,777,154	\$ 121,893,079	\$ 59,002,548	\$ —	\$ 516,314,697
Net revenue — intersegment	6,521,946	2,583,932	9,534,713	4,590,394	(23,230,985)	—
<b>Total net revenues</b>	<b>304,163,862</b>	<b>40,361,086</b>	<b>131,427,792</b>	<b>63,592,942</b>	<b>(23,230,985)</b>	<b>516,314,697</b>
Total cost of revenue	83,244,151	23,432,008	88,328,571	49,916,289	(23,230,985)	221,690,034
<b>Gross profit</b>	<b>\$ 220,919,711</b>	<b>\$ 16,929,078</b>	<b>\$ 43,099,221</b>	<b>\$ 13,676,653</b>	<b>\$ —</b>	<b>\$ 294,624,663</b>

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**2009:**

	LCD	In-store	Poster frame network	Movie theater and traditional outdoor billboards	Eliminations	Total
Net revenue — external	\$ 208,799,072	\$ 30,346,185	\$ 98,962,486	\$ 59,056,779	\$ —	\$ 397,164,522
Net revenue — intersegment	26,383,298	3,523,819	994,136	1,056,743	(31,957,996)	—
<b>Total net revenues</b>	<b>235,182,370</b>	<b>33,870,004</b>	<b>99,956,622</b>	<b>60,113,522</b>	<b>(31,957,996)</b>	<b>397,164,522</b>
Total cost of revenue	99,191,242	24,169,858	102,728,558	46,941,541	(31,957,996)	241,073,203
<b>Gross profit</b>	<b>\$ 135,991,128</b>	<b>\$ 9,700,146</b>	<b>\$ (2,771,936)</b>	<b>\$ 13,171,981</b>	<b>\$ —</b>	<b>\$ 156,091,319</b>

**2008:**

	LCD	In-store	Poster frame network	Movie theater and traditional outdoor billboards	Eliminations	Total
Net revenue — external	\$ 244,539,461	\$ 60,719,416	\$ 146,750,583	\$ 77,177,914	\$ —	\$ 529,187,374
Net revenue — intersegment	78,267,843	—	2,812,586	—	(81,080,429)	—
<b>Total net revenues</b>	<b>322,807,304</b>	<b>60,719,416</b>	<b>149,563,169</b>	<b>77,177,914</b>	<b>(81,080,429)</b>	<b>529,187,374</b>
Total cost of revenue	139,315,984	61,833,679	80,804,333	58,169,933	(81,080,429)	259,043,500
<b>Gross profit</b>	<b>\$ 183,491,320</b>	<b>\$ (1,114,263)</b>	<b>\$ 68,758,836</b>	<b>\$ 19,007,981</b>	<b>\$ —</b>	<b>\$ 270,143,874</b>

**Major Customers**

As of and for the years ended December 31, 2008, 2009 and 2010, there were no customers who accounted for 10% or more of the Group's net revenues or accounts receivables.

**Major Service lines**

The Group derives revenues from the following major service lines:

	2008		For the years ended December 31 2009		2010	
	\$	% of total revenue	\$	% of total revenue	\$	% of total revenue
Net revenue			(in thousand of U.S. dollars, except percentages)			
LCD display network	\$ 240,917,581	45.5%	\$ 208,498,537	52.5%	\$ 297,402,503	57.6%
In-store network	60,719,416	11.5%	30,346,185	7.6%	37,777,154	7.3%
Poster frame network	146,750,583	27.7%	98,962,486	24.9%	121,893,079	23.6%
Movie theater & Traditional outdoor billboards	77,177,914	14.6%	59,056,779	14.9%	59,002,548	11.4%
Advertising service revenue	525,565,494	99.3%	396,863,987	99.9%	516,075,284	99.9%
Equipment revenue	1,760,697	0.3%	300,535	0.1%	239,413	0.1%
Franchise revenue	1,861,183	0.4%	—	—	—	—
<b>Total net revenue</b>	<b>\$ 529,187,374</b>	<b>100.0%</b>	<b>\$ 397,164,522</b>	<b>100.0%</b>	<b>\$ 516,314,697</b>	<b>100.0%</b>

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**19. Related Party Transactions**

Details of advertising service revenue from related parties for the years ended December 31, 2008, 2009 and 2010 for the Group is as follows:

Name of related parties	Director interested	Year ended December 31,		
		2008	2009	2010
Shanghai Everease Advertising & Communication Ltd.	Jason Nanchun Jiang	\$ (132,116)	\$ —	\$ —
CTV Golden Bridge International Media Co., Ltd.	Daqing Qi	—	277,749	—
Sina.com	Charles Cao	1,637,297	548,988	1,034,741
Sohu.com	Daqing Qi	2,002,839	438,536	738,947
China Vanke Co., Ltd.	Daqing Qi	909,775	459,376	465,998
Home-Inn	Neil Nanpeng Shen	256,690	89,076	—
Ctrip.com	Neil Nanpeng Shen	69,863	486,263	79,601
51.com	Neil Nanpeng Shen	718	—	22,993
Qihoo.com	Neil Nanpeng Shen	48,385	38,008	17,461
UUSEE	Neil Nanpeng Shen	78,572	—	—
Aikong.com	Jason Nanchun Jiang	56,190	—	—
Giant Interactive Group Inc.	Jason Nanchun Jiang	4,153,948	368,242	385,720
Beijing Huayi Brothers	Jason Nanchun Jiang	43,561	—	—
StormNet Information Technology	David Zhang	—	—	2,569
Tea Care Group Ltd.	Fuming Zhuo	—	292,606	697,071
Yadu Huang Ke Technology Co., Ltd.	Fuming Zhuo	87,638	—	—
Focus Technology Co., Ltd.	Fuming Zhuo	—	43,200	—
<b>Total</b>		<b>\$ 9,213,360</b>	<b>\$ 3,042,044</b>	<b>\$ 3,445,101</b>

Details of advertising space leasing costs charged, net of rebates, to the Group by related parties for the years ended December 31, 2008, 2009 and 2010 were as follows:

Name of related parties	Director interested	Year ended December 31,		
		2008	2009	2010
Sina.com	Charles Cao	\$ 50,294,367	\$ 28,635,023	\$ 11,655,724
Sohu.com	Daqing Qi	39,061,219	17,208,874	8,047,723
Bona Film Group Ltd.	Daqing Qi	—	—	359,287
Ctrip.com	Neil Nanpeng Shen	343,546	146,356	130,251
51.com	Neil Nanpeng Shen	887,603	195,376	7,968
Qihoo.com	Neil Nanpeng Shen	847,021	109,564	—
UUSEE	Neil Nanpeng Shen	306,899	—	—
StormNet Information Technology	David Zhang	—	21,928	27,266
<b>Total</b>		<b>\$ 91,740,655</b>	<b>\$ 46,317,121</b>	<b>\$ 20,228,219</b>

Details of amounts due from related parties as of December 31, 2009 and 2010 are as follows:

Name of related parties	Note	Director interested	December 31	
			2009	2010
Sina.com	(a)	Charles Cao	570,113	89,897
Sohu.com	(a)	Daqing Qi	2,685,730	—
Bona Film Group Ltd.	(a)	Daqing Qi	—	21,139
Ctrip.com	(a)	Neil Nanpeng Shen	(293)	—
Tea Care Group Ltd.	(a)	Fuming Zhuo	21,475	345,297
China Vanke Co., Ltd.	(a)	Daqing Qi	7,379	13,041
<b>Total</b>			<b>\$ 3,284,404</b>	<b>\$ 469,374</b>

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Note (a) — These amounts represent trade receivables for advertising services provided or advances paid for advertising space leased.

Details of amounts due to related parties as of December 31, 2008 and 2009 are as follows:

Name of related parties	Note	Director interested	December 31,	
			2009	2010
Sina.com	(b)	Charles Cao	\$ 2,126,612	\$ 1,811,950
China Vanke Co., Ltd.	(b)	Daqing Qi	—	28,689
51.com	(b)	Neil Nanpeng Shen	32,871	—
StormNet Information Technology	(b)	David Zhang	54,376	—
Qihoo.com	(b)	Neil Nanpeng Shen	158	—
Arcom	(b)	David Zhang	—	7,550
Ctrip.com	(b)	Neil Nanpeng Shen	16,877	—
<b>Total</b>			<b>\$ 2,230,894</b>	<b>\$ 1,848,189</b>

Note (b) — The amounts represent trade payables for advertising services purchased or advances received for advertising services sold.

**Other related party transactions**

Jimmy Yu resigned his directorship in September 2009. For the year ended December 31, 2008 and the nine months ended September 30, 2009, office rentals paid to Multimedia Park Venture Capital, of which Mr. Yu was the CEO, amounted to \$870,718 and \$612,817, respectively.

As described in Note 12, on November 18, 2009, the Company issued \$75 million ordinary shares to Jason Nanchun Jiang for proceeds of \$142,425,000.

**20. Subsequent Events**

**{a} Investment in VisionChina Media Inc. (“VisionChina Media”)**

On January 13, 2011, the Company purchased 15,331,305, or approximately 15%, of the outstanding shares of VisionChina Media Inc. (“VisionChina Media”) (Nasdaq: VISN), one of China’s largest out-of-home digital television advertising networks on mass transportation systems. at a price of US\$3.979 per share, equivalent to US\$3.979 per ADS, for total consideration of approximately US\$61.0 million.

JJ Media and Front Lead Investments Limited (“Front Lead”), an entity beneficially owned by Limin Li, the chief executive officer and largest shareholder of VisionChina Media (together the “Investors”) each also acquired 1,022,087 newly issued common shares of VisionChina Media at the price of US\$3.979 per share, equivalent to US\$3.979 per ADS, each for a consideration of approximately US\$4.0 million.

The Company accounts for the investment in VisionChina Media using equity method.

**{b} Partial disposal of equity interest in Shanghai Hua Guang Chuanzhi OOH Ltd (“OOH”)**

On March 7, 2011, the Company entered into agreements to dispose of 30% equity interest in OOH, the Company’s outdoor billboard subsidiary, to GBL III Limited, an entity controlled by Goldman Sachs, and 19% equity interest to entities controlled by certain employees, directors and management members of the Company, for considerations of \$21 million and \$13.3 million, respectively. Upon the completion of the transactions, the Company will hold a 51% indirect equity interest in OOH.