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Director of Research: Carson C. Block, Esq.

Company:
Focus Media Holding Ltd.
(NASDAQ: FMCN)

Industry:
OOH Advertising

Recommendation:
Strong Sell

Report Date:
November 21, 2011

Price:
$25.50

Market Cap:
3.46 billion

Float:
93.3 million

Avg Volume:
3.48 million

- FMCN has been fraudulently overstating the number of screens in its LCD network by approximately 50%. This is similar to China MediaExpress Holdings, Inc. (OTC: CCME), which we reported is a fraud on February 3, 2011. We therefore question whether FMCN's core LCD business is viable.
- Like Olympus, FMCN is significantly and deliberately overpaying for acquisitions, writing down $1.1 billion out of $1.6 billion in acquisitions since 2005. These write-downs are equivalent to one-third of FMCN's present enterprise value.
- Our research shows that FMCN has claimed to acquire, write down, and dispose of companies that it never actually purchased. Investors should be concerned about to where cash actually moved in these transactions, and about the integrity of reported results.
- FMCN has written at least 21 acquisitions down to zero and then given them away for no consideration. We show that many of these write-downs are not justified. There are several possible nefarious reasons FMCN gives acquisitions away, including doing so may put FMCN's problems beyond the reach of auditors.
- Insiders have used FMCN as their counterparty in trading in and out of FMCN subsidiary Allyes, with several individuals earning a total of at least $70.1 million, while shareholders lost $159.6 million.
- Sales of FMCN shares by insiders have netted them at least $1.7 billion since FMCN went public in 2005.

I. Introduction – FMCN: The Olympus of China

Muddy Waters rates Focus Media Holding Ltd. (NASDAQ: FMCN) shares a Strong Sell because of significant overstatement of the number of screens in its LCD network and its Olympus-style acquisition overpayments. The $1.1 billion[1] in write-downs from its acquisitions exceed one-third of FMCN's enterprise value, making FMCN's acquisitive behavior more destructive than Olympus's to shareholder value. FMCN insiders have sold at least $1.7 billion worth of stock (two-thirds of FMCN's enterprise value) since FMCN's IPO.[2] At the same time, the insiders and their business associates further enrich themselves by trading in FMCN assets, while costing FMCN shareholders substantial sums of money.

- FMCN has been fraudulently overstating the number of screens in its LCD network by approximately 50% – particularly in Tier I cities. FMCN claims to operate 178,382 screens,[3] but the actual number in FMCN's media kit is less than 120,000. This is similar to China MediaExpress Holdings, Inc. (OTC: CCME), which we reported is a fraud on February 3, 2011. We therefore question whether FMCN's core LCD business is viable.

- Like Olympus, FMCN is significantly and deliberately overpaying for acquisitions, writing down $1.1 billion out of $1.6 billion in acquisitions since 2005.[4] These write-downs are equivalent to one-third of FMCN's present enterprise value. FMCN's overpayments include fraudulently booking at least six mobile handset advertising acquisitions that it never made.

  Olympus's situation may explain why FMCN overpays for acquisitions. Olympus management has stated that Olympus deliberately overpaid for acquisitions in order to disguise losses on investments. Questions remain about whether individuals associated with these transactions also pocketed the money, and / or whether the acquisitions were really used to cover losses in Olympus's seemingly robust core business.

  Like Olympus, FMCN could be hiding losses through its overpayments – this is particularly plausible, given its overstatement of LCD screens. Another possible reason FMCN overpays for acquisitions could include recycling acquisition consideration back into FMCN's revenue line. It is also possible that capex is being misappropriated, which is probably the most common reason for capital expenditure inflation in China.

- Our research shows that FMCN has claimed to acquire, write down, and dispose of companies <u>that it never actually purchased</u>. Investors should be concerned

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[1] See p. 3: *Goodwill Hunting at the Olympus Games*

[2] See Appendix E – Insider Transactions

[3] http://ir.focusmedia.cn/phoenix.zhtml?c=190067&p=irol-newsArticle&ID=1631895&highlight=

[4] See p. 3: *Goodwill Hunting at the Olympus Games*

about to where cash actually moved in these transactions, and about the integrity of reported results.

- FMCN has written at least 21 acquisitions down to zero and then given them away for no consideration. We show that many of these write-downs are not justified. There are several possible nefarious reasons FMCN gives acquisitions away, including doing so may put FMCN's problems beyond the reach of auditors.

- Insiders have used FMCN as their counterparty in trading in and out of FMCN subsidiary Allyes, with several individuals earning a total of at least $70.1 million,[5] while shareholders lost $159.6 million.[6]

- Sales of FMCN shares by insiders have netted them at least $1.7 billion since FMCN went public in 2005.

- FMCN took a rare winner and sold it for a loss to its joint venture partner. FMCN had invested in an internet advertising JV with Dentsu, and the JV looks to have been doing phenomenally well. Last year, FMCN transferred the entirety of its shares to Dentsu for less than FMCN had invested in the company. We suspect that the reason for the bargain sale was to clear the way for FMCN insiders to enter into another self-dealing transaction.

- FMCN insiders have maneuvered themselves to the front of the line to cash in on the expected IPO of one of FMCN's subsidiaries. Insiders and an investment bank that is financing their purchase of shares have acquired 49% of Hua Guang. Shareholders will likely see tens of millions of dollars in losses from this transaction.

- FMCN's board is incapable of exercising good corporate governance. It is too well-paid and connected to management through business transactions outside of FMCN.

Muddy Waters believes that many of the items we discuss in this report are symptomatic of a highly troubled enterprise that is run solely for the benefit of insiders. The problems we have uncovered are likely the tip of the iceberg, and in some cases may reflect periodic medicine that must be given to FMCN in order to keep up appearances of health. While some of the behavior we discuss occurred before 2010, investors should ask themselves whether management has successfully completed a 12-

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[5] Calculated as the difference between Management's purchase price ($13.3 million) and their sale price ($76.0 million based on a full sale to Silver Lake at a $200.0 million implied valuation) combined with proceeds to FMCN insiders from the original sale of Allyes to FMCN of at least $7.4 million

[6] Cost to shareholders calculated as $225.0 million in initial consideration plus $71.9 million in earn-out, minus the $124.0 million sale price to Silver Lake and $13.3 million sale price to management.

step program to stop abusing shareholders. Recent self-dealing transactions indicate that is unlikely.

II. Organization of this Report

This report primarily highlights three behaviors: Olympus-style acquisition overpayments, unjustified write-downs in order to dispose of acquisitions likely for non-good faith reasons, and continuous insider self-dealing. The report illustrates these behaviors in Parts VI through VII and XIV through highlights of FMCN transactions that are relevant to these behaviors. We provide full summaries of the transactions in Parts VII through XIII.

III. About this Report

Muddy Waters's team had a team of 12 people with expertise in accounting, finance, law, advertising, and entrepreneurship began working on FMCN this summer. We initially became concerned about the company because of its peculiar acquisition activity.

Muddy Waters's research process was exhaustive, and included reading and analyzing the SAIC[7] files for 160 companies, all of FMCN's conference call transcripts, and all of FMCN's SEC filings and press releases. In addition, we conducted extensive fieldwork and spoke with a variety of industry experts. While in the middle of our work on FMCN, Olympus's now-former CEO made front-page news by exposing the questionable series of acquisitions and payments Olympus had made. It is one of the more remarkable coincidences of our team members' careers.

IV. Summary

LCD Screen Fraudulent Overstatement and Misrepresentations

FMCN materially overstates the number of LCD screens in its core business. FMCN's SEC filings state that it has 178,382[8] screens, while according to its media kit, it has fewer than 120,000, a 50% overstatement. It actually has fewer than 30,000 screens in Tier I cities, despite claiming to have in excess of 50,000 Tier I screens.[9] (We estimate that Tier I effective advertising rates are approximately 141.9% higher than those of Tier II cities.)

FMCN claims that the majority of its LCD screen network is in "heavy-traffic areas of commercial office buildings";[10] however, network-wide only approximately 30% of screens are in office buildings. The remainder of the screens is almost all in residential

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[7] State Administration of Industry and Commerce

[8] http://ir.focusmedia.cn/phoenix.zhtml?c=190067&p=irol-newsArticle&ID=1631895&highlight=

[9] Conversations with analysts and FMCN.

[10] FMCN 12/31/10 20-F, Page 40

buildings. Residential buildings result in far fewer impressions for advertisers than do office buildings. The number of people who work on one floor of an office building is roughly equivalent to the number of people living in a whole residential tower. Residential buildings therefore tend to have about 5% of the impressions that office buildings do.

Goodwill Hunting at the Olympus Games

It is indisputable that FMCN routinely overpays for acquisitions. It has written off $1.1 billion out of approximately $1.6 billion in acquisitions.[11] (The total of write-downs is greater than one-third of FMCN's present enterprise value, and is responsible for FMCN's accumulated deficit since going public of $437.4 million.[12]) A Tyco-esque $902.3 million of these write-downs were of goodwill.

After taking these write-downs, FMCN gave away, for no consideration, at least 21 of the companies it had acquired – including one that had not been disclosed. We believe that FMCN could be unjustifiably impairing to zero and giving away these companies in order to move its problems out of sight from its auditors, or because it is returning borrowed businesses (along with borrowed revenue and profit).

The question is whether this abysmal track record is due to management merely being incompetent, or whether they are deliberately overpaying. Based on our research into the following transactions, we have no doubt that FMCN's overpayments are deliberate – just as Olympus's are. The following transactions support that thesis:

- **Six mobile handset advertising companies that FMCN never actually acquired**. FMCN claimed to acquire these companies between 3/1/2007 and 10/1/2007 for total consideration of $46.3 million.[13][14] FMCN then claimed to impair these companies to zero in 2008, and return them to their original shareholders. However, the acquisitions (and obviously disposals) never occurred. The fact that these acquisitions never occurred has important implications for the whereabouts of the cash FMCN claimed to pay, as well as the integrity of FMCN's reported results.

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[11] FMCN does not make it easy to determine how much it spends on acquisitions. We estimated this number based on segment-level and subsidiary-level disclosures made in their quarterly and annual filings, line items from their consolidated financial statements, and items disclosed in their notes to the consolidated financial statements

[12] Q3 2011 Press Release

[13] 2009 20-F Amendment 4, p. 78.

[14] Our math, which is based on numbers in the 2008 20-F pp. F-10 and F-20, yield a purchase price for 10 entities (not just six) of $32.2 million. The difference includes the 1.5 million shares issued for contingent payment to the selling shareholders of Dotad. This imbalance may be another sign of cooked books.

- **Zong Heng Pin Yu ("ZHPY"), a company that operated a LED advertising boat (the Captain Six) on a river in Shanghai**. FMCN booked $27.4 million in expenses for this acquisition,[15] despite ZHPY having established a market value for itself four months earlier of only $3.7 million.[16] FMCN then paid at least an additional $12.4 million for the Captain Six.[17] We estimate that the Captain Six should have cost no more than $3.9 million.[18]

- **Allyes, an internet advertising company**. FMCN acquired Allyes for $296.9 million, and wrote it down to $78.5 million nine months later.[19] Chairman & CEO Jason Jiang, board member & venture capital star Neil Shen,[20] and close business associate of Mr. Jiang & venture capital star Xiong Xiangdong were among the selling shareholders of Allyes at the rich price. (Jiang, Xiong, and others would subsequently trade into Allyes at an even lower valuation of $35 million,[21] and then personally make tens of millions of dollars while shareholders racked up total losses on Allyes of $159.6 million.[22])

- **CGEN, a now defunct direct competitor of FMCN's in the in-store advertising space that turned into a $198.4 million[23] loss for FMCN**. CGEN was such a dramatic failure that Muddy Waters does not believe the acquisition was made in good faith. FMCN bought this company for $168.4 million and repaid a $30.0 million loan CGEN owed,[24] to impair it only 11 months later to zero.[25] The purported rationale for acquiring CGEN is bizarre – that essentially FMCN would use CGEN as leverage over substantially larger hypermarket chains, and coerce them into letting CGEN break its existing leases.[26] This was clearly a far-fetched idea.[27]

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[15] See *Shipwrecked*

[16] See *Shipwrecked*

[17] 2009 Q1 6-K filing

[18] See *Shipwrecked*

[19] See 2008 20-F, p. 65

[20] http://www.forbes.com/sites/nicoleperlroth/2011/04/28/forbes-chinas-top-venture-capitalists/

[21] March 16, 2010 6-K

[22] Cost to shareholders calculated as $225.0 million in initial consideration plus $71.9 million in earn-out, minus the $124.0 million sale price to Silver Lake and $13.3 million sale price to management

[23] $198.4 million calculated as the sum of the cash consideration paid to selling shareholders ($168.4 million) along with the additional cash used to repay a $30.0 million loan owed by CGEN prior to the acquisition. Figures taken from the Share Purchase Agreement between Focus Media and CGEN (exhibit 10.162 to the 2007 20-F, pp. 12-13 & 46)

[24] 2009 20-F, p. F-17

[25] 2009 20-F, p. F-17

[26] 2010 20-F, p. 54

[27] Muddy Waters's proprietary (engineered in-house) stochastic probability-based China dynamic matrix decision making application indicates that, within the 95% confidence interval, such request would have been met with a response of "F—k you."

After writing CGEN down, FMCN gave it away to a company that is associated with the aforementioned Xiong Xiangdong (see Allyes supra).[28] That FMCN needed a friendly party to act as the trash receptacle for CGEN only heightens our suspicions about this transaction.

- **FMCN made a string of six small acquisitions in the internet advertising space**. These acquisitions were near total losses for FMCN, but provided benefit to businesses associated with certain FMCN board members. During the period in which FMCN owned these companies (between 2007 to 2009), these acquisitions along with Allyes gave FMCN a reason to spend $198.3 million (up from zero in 2006) between 2007 and 2010 on leasing online advertising space from related parties in which certain board members had interests.

Impairing Judgment

We conclude that FMCN generally desires to impair its acquisitions – including the six phantom acquisitions it never made. Even assuming FMCN had made the phantom acquisitions, it has still overstated its losses on disposal in the Mobile segment by at least $26.1 million,[29] which is a clear warning sign of cooked books.[30] In at least 21 instances, FMCN has written acquisitions down to zero and given the companies away—usually back to their original shareholders. The rationale for many of these write-downs is doubtful. These unnecessary impairments, often followed by giveaways, could serve several nefarious purposes, including making it harder for auditors to detect problems.

Among the acquisitions we believe were unjustifiably impaired are:

- **Ten mobile handset advertising companies, six of which FMCN never actually acquired**. If FMCN never acquired them, obviously it should not impair them. However, FMCN took an impairment charge of $41.8 million on these six "acquisitions."[31] Even if they had acquired these six firms, the loss on disposal of these 10 companies appears overstated by $26.1 million. This overstatement may indicate cooked books.

- **Dotad, an unnecessary write-down of $26.8 million (100%) that smacks of impropriety**. Dotad's CEO under FMCN, Xu Maodong, took over a startup competitor, BFTL,[32] right after leaving his position at FMCN as Dotad CEO.[33] FMCN not only failed to enforce a non-compete agreement, but an FMCN

[28] See *Bizarre Business Plan Fails*

[29] Calculated as the difference between total losses on disposal in the Mobile segment ($93.5 million) and total consideration, including contingent consideration, paid for Mobile acquisitions

[30] Fictitious accounting entries need to be remembered, and are thus harder to balance out than real ones.

[31] See *How to Fail in Business Without Really Trying*

[32] Bai Fen Tong Lian, or Lmobile.

[33] http://it.sohu.com/20100510/n272011240.shtml

employee[34] was one of two transferors of ownership of BFTL to Mr. Xu. Further, FMCN transferred one of its subsidiaries, Yitong, to BFTL. BFTL (with Mr. Xu still running it) went on to raise $100 million from Telstra and Softbank in 2010,[35] and appears to be thriving. Apparently, the non-compete agreement that FMCN touts in all of its 20-F filings does not apply to Mr. Xu:

> 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.[36]

Dotad did not fare so well. FMCN impaired the entire purchase price of $26.8 million. We do not understand the games that FMCN, Mr. Xu, and the Yitong sellers were playing – suffice to say that there is likely substantially more than meets the eye.

- **Allyes Information Technology Company Limited was impaired a second time** (after being impaired from $296.9 million to $78.5 million)[37] to $32.3 million[38] in order to allow insiders to purchase 38% of it at a bargain price (see infra *All(Directors Say)Yes to Enriching Insiders*). The purchasing insiders flipped the stake seven months later at an implied valuation of $200 million,[39] which is an annualized IRR of 2,127.2%.

All(Directors Say)Yes to Enriching Insiders

FMCN is run primarily for the benefit of insiders.

- The most egregious example of insiders' self-dealing at the expense of shareholders is their use of FMCN to trade in and out of Allyes. We

[34] Per résumé contained in SAIC files, we know he was an employee of an FMCN Wireless subsidiary

[35] Lmobile.cn/about.html

[36] 2007 20-F, pp. 87-88

[37] See *All(Directors Say)Yes to Enriching Insiders*

[38] 2009 20-F, p. F-22 for intangible impairment, and 2009 20-F, p. F-25 for goodwill impairment

[39] 2010 20-F, p. 4

conservatively estimate that these transactions netted insiders \$70.1 million.[40] FMCN shareholders lost \$159.6 million as a result of these transactions.[41]

- Insiders are continuing to trade against FMCN shareholders in valuable assets even this year – insiders and an investment bank acquired from FMCN 49% of a profitable traditional billboard advertising company that is likely to go public in 2012.[42] The investment bank financed the insiders' purchase, presenting an even greater conflict of interest between insiders and shareholders.[43]

- In the public market, insiders have sold at least \$1.7 billion of shares since FMCN went public.[44] With quarterly share grants running around \$14 million,[45] insiders ensure a constant supply of shares to sell. We believe that shareholders are mistaken if they think that FMCN's share buyback is for their benefit – this perpetual issue (to insiders) and buyback cycle is merely a less noticeable way of transferring money from the shareholders to insiders.

- The board is unable to exercise proper governance, as it consists of individuals who are too highly compensated by FMCN. Furthermore, most of the insiders are deeply entangled with one another in business transactions outside of FMCN – in a number of cases, these transactions involve venture-capital deals, and transactions with other Chinese public companies.

V. Fraudulent Overstatement of Screens and Misrepresentations about Network Quality

FMCN overstates its LCD screens by nearly 50%. FMCN claims that, as of September 30, 2011, it had 178,382 displays in its network.[46] In reality, it presently has approximately 120,000 screens. (The 120,000 screens include about 15,000 screens to which FMCN has access through distribution agreements.) This is approximately equivalent to the number of screens FMCN claimed in its 2007 20-F: 112,298.[47] This fact presents two possibilities: FMCN has not grown its network since 2007, and / or it has always been lying about its network size.

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[40] Calculated as the difference between Management's purchase price (\$13.3 million) and their sale price (\$76.0 million based on a full sale to Silver Lake at a \$200 million implied valuation) combined with proceeds to FMCN insiders from the original sale of Allyes to FMCN of \$7.4 million

[41] Calculated as the difference between the total proceeds from Management (\$13.3 million) and Silver Lake (\$124 million) subtracted from the proceeds paid to acquire Allyes (\$225 million in cash and \$71.927 million in stock)

[42] http://www.lmobile.cn/about.html

[43] 2010 20-F, p. 101

[44] Appendix E – Insider Transactions

[45] Q3 2011 Consolidated Financial Statements

[46] Q3 2011 Press Release

[47] 2007 20-F, p. 5

FMCN overstates its Tier I screens by approximately 67%.[48] According to analysts, FMCN states that it has in excess of 50,000 displays in Tier I cities. It actually has fewer than 30,000 such screens. Further, approximately 10% of its screens in Beijing are operated by a distributor, which contradicts FMCN's statements to investors that it owns the entire Tier I network.[49] We estimate that Tier I effective advertising rates are approximately 141.9% higher than those of Tier II cities. FMCN states that approximately 60% of its LCD network revenue is from Tier I cities.[50]

FMCN's real network has a large "Tier Free" skew. Note that approximately 50,000 screens (over 40% of the network) are in Tier III and Tier IV cities. Our research indicates that relatively few advertisers are charged for ads shown in Tier III and IV cities. With little potential for revenue in Tier Free cities, the economics of having a presence there are questionable. The screen investment alone is about $20 million,[51] and we imagine that the operating cost of a network that has to be updated by manually replacing memory cards weekly is not low. [52]

FMCN claims that the majority of its LCD displays are in "heavy-traffic areas of commercial office buildings."[53] However, only approximately 30% of FMCN's screens network-wide are in commercial buildings. In Tier I cities, only approximately 45% of FMCN's screens are in office buildings. In Tier II cities, only approximately 30% of screens are in office buildings. The balance of screens is substantially all in residential buildings. Residential buildings are inherently less valuable to advertisers than are office buildings. One floor of an office building typically has as much traffic as an entire residential tower.

VI. Goodwill Hunting at the Olympus Games

FMCN is deliberately overpaying for acquisitions. Usually when we see capex inflation in China, management is misappropriating the money. In FMCN's case, other plausible explanations for the overpayments could include burying losses (similar to Olympus), and recycling cash that comes back as revenue. Any combination of these items is possible with FMCN – particularly given its fraudulent overstatement of the size of its LCD screen network. Further, in the case of FMCN's purchase of Allyes, we saw FMCN overpaying for a company that FMCN bought in part from FMCN insiders.

It is indisputable that FMCN routinely overpays for acquisitions. It has written off $1.1 billion out of approximately $1.6 billion in acquisitions. [54] (The total of write-downs is

[48] China's Tier I cities are Beijing, Shanghai, Guangzhou, and Shenzhen.

[49] Conversation with FMCN.

[50] Conversation with FMCN.

[51] Assuming $400 per screen.

[52] 2010 20-F, p. 24

[53] 2010 20-F, p. 40

[54] FMCN does not make it easy to determine how much it spends on acquisitions. We estimated this number based on segment-level and subsidiary-level disclosures made in their quarterly and annual

greater than one-third of FMCN's present enterprise value.) As a result of these write-downs, the majority of which have been written down to zero, FMCN has an accumulated deficit of $437.4 million.[55]

Approximately 85% of FMCN's write-downs consist of goodwill. (It is a clear warning sign when a company writes down goodwill equivalent to 39.7% of its enterprise value[56] – think TYC in early 2002.) The question is whether this abysmal track record is due to management merely being incompetent, or whether they are deliberately overpaying.

Phantom Acquisitions (full discussion in "How to Fail in Business Without Really Trying")

FMCN fraudulently claims to have acquired and disposed of six mobile handset advertising companies that it never actually acquired. It is difficult to think of a clearer case of deliberately overpaying for an acquisition (from a GAAP standpoint anyway) than claiming to have bought something you did not.

FMCN round-tripped these phantom acquisitions, claiming to have returned them to their original shareholders after impairing the total purported consideration of $46.3 million in 2008. By claiming to have returned these phantom acquisitions to their original shareholders, the non-subsidiaries would presumably be beyond the scope of the annual audit.

Paying 7.4x Established Market Value for a Boat Advertising Company (full discussion in "Shipwrecked")

This number is also 30.3x the price specified in the Share Purchase Agreement in the SAIC file. FMCN wrote-off the entire $24.2 million[57] it spent on a company, Zong Heng Pin Yu ("ZHPY") that had the right and license to sell advertising on a LED-equipped boat, the Captain Six, which trawled the Huangpu River in Shanghai. While FMCN actually acquired this company, it is questionable whether it actually paid anywhere near $24.2 million for the company. If it did pay that amount, then it would have paid 7.4x the market value the company established only four months earlier when it agreed to sell 90% of itself for only $3.3 million.[58]

ZHPY's SAIC file contains the equity transfer agreement between the selling shareholders and FMCN. The agreement provides for consideration of only RMB six million (approximately $800,000 at the time). The consideration is broken down into

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filings, line items from their consolidated financial statements, and items disclosed in their notes to the consolidated financial statements

[55] http://ir.focusmedia.cn/phoenix.zhtml?c=190067&p=irol-newsArticle&ID=1631895&highlight=

[56] Using an enterprise value of $2.87 billion per Capital IQ as of the November 18, 2011 market close

[57] See calculations in *Shipwrecked*

[58] See appendix

RMB one million, which the agreement allocates as consideration for ZHPY's registered (i.e., paid-in) capital, and RMB five million as a reserve against potential litigation damages.

Only four months prior to selling ZHPY to FMCN, ZHPY's then-shareholders had agreed to sell 90% of ZHPY to another buyer for only $3.3 million. In selling ZHPY to FMCN, the sellers faced a possible breach of contract claim, and thus the litigation reserve. Importantly, the would-be buyer did sue, and the ensuing litigation establishes the agreed upon sale price of $3.3 million for the 90% stake of as fact.

Also of note, FMCN acquired the Captain Six for at least $12.4 million[59] after buying ZHPY. We estimate that the Captain Six should have cost no more than $3.9 million.[60]

Overpaying for Allyes When Sellers Include FMCN Insiders (See "All(Directors Say)Yes to Enriching Insiders")

FMCN bought Allyes from a group of shareholders that included FMCN board member Neil Shen, the omnipresent Xiong Xiaodong, and likely also chairman / CEO Jason Jiang for a total of $296.9 million. We estimate that this purchase put at least $7.4 million in profit into the aforementioned individuals' pockets. FMCN shareholders did less well when FMCN subsequently impaired Allyes to $78.5 million.[61] FMCN eventually sold Allyes at valuations ranging from $35.0 million (to insiders) to $200.0 million (to a venture capital firm). It is clear that FMCN did not effectively manage the conflict of interest inherent in this purchase.

Massively Overpaying for a Failing Direct Competitor (See "FMCN Acquires a Direct Competitor and Loses $198.4 Million in 11 Months When Bizarre Business Plan Fails")

FMCN bought its direct competitor in the in-store network space, and wrote the entire acquisition off within 11 months. As part of the purchase agreement, FMCN agreed to repay $30.0 million of CGEN's outstanding debt. The need for the loan in an asset lite business was a clear sign that CGEN had serious issues.

FMCN's purported rationale in paying richly for CGEN is that after the acquisition, CGEN's landlords would be amenable to renegotiating CGEN's existing leases to allow for lower lease payments. CGEN's landlords were hypermarkets, such as Carrefour, and are significantly larger in China than the combination of FMCN and CGEN. We are skeptical that FMCN management was really unsophisticated enough to risk in good faith this much money on a company and turnaround plan this shaky.

FMCN's CGEN-esque Business Plan for Small Internet Acquisitions Fails to Enrich Shareholders, but Helps Related Parties

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59 2009 Q1 6-K filing

60 See *Shipwrecked*

61 2008 20-F, p. 65

FMCN made a string of six small acquisitions in the internet advertising space. These acquisitions were near total losses for FMCN, but benefitted businesses associated with certain FMCN board members. During the period FMCN owned these businesses, FMCN's spending on internet services provided by related parties went from zero in 2006 to a total of $178 million between 2007 and 2009.

Olympus Gold

The table below shows our best estimate of the total amounts paid for acquisitions and subsequent write-offs and losses on disposal by FMCN.[62]

Acquisitions & Write-downs (US$ 000's)	2005	2006	2007	2008	2009	2010	Total
LCD Display Acquisitions	$4,034	$413,025	$43,262	$5,000	$0	$0	$465,322
LCD Display Contingent Payments	0	0	784	4,901	1,923	5,039	12,646
LCD Display Total Acquisition Costs	4,034	413,025	44,046	9,901	1,923	5,039	477,968
LCD Display Write-downs/Losses on Disposal	1,871	0	0	20,100	36,900	0	58,871
Cumulative LCD Display Total Acquisition Costs	4,034	417,060	461,106	471,007	472,929	477,968	
Cumulative LCD Display Write-downs/Losses	$1,871	$1,871	$1,871	$21,971	$58,871	$58,871	
Poster Frame Acquisitions	$3,454	$110,670	$3,291	$1,178	$0	$5,348	$123,940
Poster Frame Contingent Payments	0	0	237,879	38,972	30,397	15,551	322,799
Poster Frame Total Acquisition Costs	3,454	110,670	241,170	40,150	30,397	20,899	446,739
Poster Frame Write-downs/Losses on Disposal	0	0	0	376,800	40,587	5,736	423,123
Cumulative Poster Frame Total Acquisition Costs	3,454	114,124	355,294	395,444	425,841	446,739	
Cumulative Poster Frame Write-downs/Losses	$0	$0	$0	$376,800	$417,387	$423,123	
Theater & Traditional BB Acquisitions	$0	$2,800	$0	$0	$0	$0	$2,800
Theater & Traditional BB Contingent Payments	0	0	0	0	33,250	0	33,250
Theater & Traditional BB Total Acquisition Costs	0	2,800	0	0	33,250	0	36,050
Theater & Traditional BB Write-downs/Disposal Losses	0	0	0	900	36,850	0	37,750
Cumulative T & TBB Total Acquisition Costs	0	2,800	2,800	2,800	36,050	36,050	
Cumulative T & TBB Write-downs/Losses	$0	$0	$0	$900	$37,750	$37,750	
In-Store Displays Acquisitions	$0	$0	$0	$198,400	$0	$0	$198,400
In-Store Displays Contingent Payments	0	0	0	0	0	0	0
In-Store Total Acquisition Costs	0	0	0	198,400	0	0	198,400
In-Store Displays Write-downs/Disposal Losses	0	0	0	190,466	0	0	190,466
Cumulative In-Store Displays Total Acquisition Costs	0	0	0	198,400	198,400	198,400	
Cumulative In-Store Displays Write-downs/Losses	$0	$0	$0	$190,466	$190,466	$190,466	
Wireless Acquisitions	$0	$15,000	$31,064	$0	$0	$0	$46,064
Wireless Contingent Payments	0	0	11,769	1,123	0	0	12,892
Wireless Total Acquisition Costs	0	15,000	42,833	1,123	0	0	58,955
Wireless Write-downs/Disposal Losses	0	0	0	91,941	1,588	0	93,529
Cumulative Wireless Total Acquisition Costs	0	15,000	57,833	58,955	58,955	58,955	
Cumulative Wireless Write-downs/Losses	$0	$0	$0	$91,941	$93,529	$93,529	
Internet Acquisitions	$0	$0	$268,587	$71,927	$0	$0	$340,514
Internet Contingent Payments	0	0	0	0	0	0	0
Internet Total Acquisition Costs	0	0	268,587	71,927	0	0	340,514
Internet Write-downs/Disposal Losses	0	0	0	222,587	86,889	(79,000)	230,476
Cumulative Internet Total Acquisition Costs	0	0	268,587	340,514	340,514	340,514	
Cumulative Internet Write-downs/Losses	$0	$0	$0	$222,587	$309,476	$230,476	
Unidentified Contingent Payments	$0	$0	$0	$0	$10,633	$14,249	$24,883
Unidentified Write-downs/Disposal Losses	$0	$0	$3,675	$698	$17,946	$3,152	$25,470
Total Acquisition Costs	**$7,488**	**$541,496**	**$596,636**	**$321,501**	**$76,202**	**$40,187**	
Total Write-downs/Disposal Losses	**1,871**	**0**	**3,675**	**903,492**	**220,760**	**(70,112)**	
Cumulative Total Acquisition Costs	**7,488**	**548,984**	**1,145,620**	**1,467,121**	**1,543,323**	**1,583,510**	
Cumulative Write-downs/Disposal Losses	**$1,871**	**$1,871**	**$5,546**	**$909,038**	**$1,129,797**	**$1,059,685**	

VII. Impairing Judgment

[62] Acquisition numbers are not exact due to lack of disclosure of the value of shares awarded in certain transactions, undisclosed contingent consideration (numbers for some earn-out items below are purely based off of change in goodwill attributed to the resolution of contingent consideration due to lack of any direct or other disclosure regarding those payments in those periods. If there were any other balance sheet items used to account for those contingent payments, the amounts attributed to those items would not be captured in the below table), and undisclosed consideration for certain transactions (these were not estimated, and were marked as 0). Write-down figures do not precisely match those disclosed through the statement of cash flows precisely due to lack of disclosure of certain transaction values, rounding errors, and potential lack of disclosure of small write-downs or small pieces of larger write-downs

Introduction

We conclude that FMCN generally desires to impair its acquisitions. A number of FMCN's impairments are questionable. In at least 21 instances, FMCN has impaired acquisitions to zero, and then given the companies away without consideration. These impairments (particularly with giveaways) could serve several nefarious purposes. There seems to be a culture of permissiveness between FMCN and its covering sell-side analysts that causes these (and other) problems to go unnoticed.

"A Zero"…Really?

We conclude that FMCN unjustifiably impairs acquisitions based on our analysis of the write-downs and subsequent transfers of 10 mobile handset advertising companies (nine of which were purportedly returned to their original shareholders), six smaller internet ad companies, one traditional billboard company, and Allyes. FMCN discloses relatively little about its acquisitions; however, from the 21 giveaways for which it has provided some detail, there is a clear pattern of unjustifiably writing acquisitions down to zero in order to return them to the selling shareholders for zero consideration. We think of many of FMCN's acquisitions as more of leased business arrangements, rather than full acquisitions.

The first set of unjustifiably impaired acquisitions is the 10 mobile handset acquisitions, which includes the six phantom mobile handset acquisitions. One cannot lose on disposal what one does not actually have to lose, which makes it plain that the loss on disposal is overstated. Less obviously, even if FMCN had really acquired those six companies, its accounting for losses on disposals does not seem to add up. We believe that this imbalance is due to a combination of being required by the SEC to make disclosures related to the acquisitions and disposals in a short period of time, and having no basis in reality for the numbers.

We calculate that FMCN's claimed loss on disposal of $91.9 million in 2008 for the mobile handset acquisitions (again, assuming it had actually acquired all 10 of them) is at least $26.4 million too high. Our calculation is as follows:

Mobile Impairment Imbalance ($000s)

Account	Amount	Source
Loss on Disposal	91,941	2008 20-F, p. F-21
-Intangibles	14,605	2008 20-F, p. F-21
-Goodwill	44,126	2008 20-F, p. F-21
-A/R Writedown	7,066	2009 20-F, p. F-19
Excess	**26,144**	

In the above calculation, we assume that all A/Rs written off in 2008 were attributable to mobile handsets, which is a conservative assumption. FMCN's only disclosed PP&E write-down in 2008 was in its LCD segment,[63] so a PP&E write-down should not account for the $26.1 million difference above. Further, the mobile companies typically have $70,000 (RMB 500,000) to $140,000 (RMB one million) in registered (i.e., paid-in) capital, which means that they would be unlikely to have much in the way of PP&E. The business model is not highly capital intensive.

FMCN's near total write-offs[64] of its smaller internet advertising acquisitions, followed by giveaways, generally appear unwarranted based on the companies' 2009 and 2010 financial performances. The table below shows the smaller internet companies that FMCN wrote-down to zero in 2009.

Summary of Internet Disposals

	Establishment Date(1)	PHX Acquisition Date	Disposal Date	Proceeds Paid ($mm)(2)	Loss on Disposal ($mm)
Wonder Ad	Apr-03	Apr-07	Dec-09	14.9	14.9
Catchstone	Aug-02	Jun-07	Nov-09	14.5	11.6
Jiahua 1	Jan-07	Jun-07	Dec-09	7.7	7.7
Jiahua 2	Apr-00	Jun-07	Dec-09	7.7	7.7
1024	Feb-04	Jan-07	Dec-09	3.4	3.4
Wangmai	Feb-04	Jan-07	Dec-09	2.7	2.7

(1) Figures taken from each entity's SAIC filings
(2) Figures taken from FMCN 2010 20-F, pg. 72

The below SAIC financial statements show that the companies generally did not perform significantly worse in 2009 than in 2008. Further, iResearch, which is owned by Allyes (and thus FMCN during 2009), shows that China's online advertising market grew 21.9% in 2009,[65] further calling into question the rationale for these write-downs. Regardless, FMCN obviously could have found purchasers for these businesses, given that they still had value.

[63] 2008 20-F, p. 63.

[64] FMCN wrote all of the smaller (i.e. non-Allyes) internet companies down by 100%, except for Catchstone. It impaired Catchstone 80%, but disposed of it for zero consideration. We assume zero consideration for all companies because of the absence of any account in the cash flow statement showing cash received for disposal of subsidiaries until 2010 when FMCN disposed of Allyes. 2008 shows a cash outflow of $11.7 million for disposal of subsidiaries, which is cash FMCN gave away with the disposals.

[65] http://www.prnewswire.com/news-releases/silver-lake-acquires-majority-stake-in-allyes-chinas-leading-digital-marketing-solutions-provider-99620644.html

Internet Subsidiaries SAIC Financials (USD$ 000s)[1]	2006	2007	2008	2009	2010
Wonder Ad					
Revenues	3,772	5,949	10,964	3,338	1,201
Net Income/(Loss)	3	(258)	(374)	(229)	(84)
Catchstone					
Revenues	11,334	NA	43,383	57,697	NA
Net Income/(Loss)	33	NA	323	1,512	NA
Wangmai					
Revenues	3,999	7,416	13,394	28,759	NA
Net Income/(Loss)	(0)	9	2	0	NA
Jiahua 1[2]					
Revenues	NA	2,280	12,842	14,562	18,263
Net Income/(Loss)	NA	71	62	128	135
Jiahua 2[2]					
Revenues	NA	4,062	833	-	-
Net Income/(Loss)	NA	11	5	(5)	(4)
Jiahua 1 & 2 Combined					
Revenues	NA	6,341	13,676	14,562	18,263
Net Income/(Loss)	NA	82	67	123	131
1024					
Revenues	NA	159	1,856	1,728	1,278
Net Income/(Loss)	NA	48	38	43	30

(1) Converted to USD using the average exchange rates provided in the FMCN annual filings

(2) The two Jiahua entities were transferred to FMCN by the same shareholder

FMCN's 2009 disposal of Tou Jia (aka "Tuojia"), a small traditional outdoor billboard company, for zero consideration also seems unjustified. FMCN wrote that Tuo Jia experienced a severe decline in revenue, and gross and operating profits in Q2 2009. FMCN also cited a rise in DSO, and stated that it believed that it would be unable to turnaround the business.[66] The 2009 numbers below for Tuojia do not look that poor.

Tou Jia is one of the entities that was disposed of by FMCN to another party for no consideration.

[66] 2010 20-F, p. 72.

Tuojia SAIC Financials (USD$ 000s)[1]					
	2005	2006	2007	2008	2009
Revenues	195	362	2,187	2,911	2,425
Net Income	(84)	(21)	(302)	52	35
Total Assets	158	429	1,382	1,291	487
Total Liabilities	119	410	1,558	1,428	566
Net Equity	39	19	(176)	(136)	(79)

(1) Converted using the exchange rates provided in the FMCN annual filings. Average exchange rates were used for income statement items, and period-end exchange rates were used for balance sheet items

Allyes is a different type of unjustified write-down in that FMCN sold 38% of it to management at an implied value of $35 million (see infra *All(Directors)Say Yes*). This necessitated significant impairments from the original $296.9 million FMCN paid in order to justify management's bargain purchase. Management flipped its stake seven months later at an implied valuation of $200 million (5.7x).

The Thrill of Defeat

We speculate as to why FMCN would want to unnecessarily write companies down to zero. Writing down companies to zero as a pretext for giving them away could serve several purposes:

1. If FMCN is burying losses via inflated capital expenditures a la Olympus, getting rid of the businesses ensures that the entities (and the losses) will be placed safely outside the view of auditors. We believe that the overstated impairment charges we discuss in this section are likely also used to bury losses.

2. It is possible that FMCN has side agreements with the "sellers" to give the companies back after a short period. This could enable FMCN to borrow revenue and profit at a much lower real cost (i.e., consideration the seller actually keeps).

3. FMCN management used an artificially aggressive write-down of Allyes to justify its bargain basement purchase of 38% of the company from FMCN. Management flipped its positions to a venture capital fund seven months later for a 5.7x exit, which is an annualized IRR of 2,127.2%. Transactions in Allyes have put tens of millions of dollars into insiders' pockets while costing shareholders $159.6 million. We discuss the Allyes opprobrium in detail in *All(Directors Say)Yes*.

Why Doesn't Everybody do This?

We find it likely that Olympus would have had an easier time hiding its overpayments if it could have given the acquisitions away. We believe that it did not gift its problematic acquisitions away (despite them being a smaller percentage of enterprise value) because analysts would have noticed. Olympus is a much larger company than FMCN, and is traded on an exchange that has not seen froth since 1989.

In contrast, FMCN seems to have an overly cozy dynamic with many of its sell-side analysts. The inside joke at Muddy Waters when reviewing conference call transcripts was: The analysts treat every call like a job interview.[67] Indeed, FMCN's current CFO, Kit Leong Low, used to cover FMCN from the sell side. Also of note is that FMCN has not taken a single buy-side question on a call since Q1 2007 when Kingsford Capital asked some graduate-level questions.

[67] Muddy Waters struggles to think of a greater form of banality than the standard US-listed Chinese company call with analysts.

High Level View of Disposals

Focus Media: Subsidiary Disposals					
Subsidiary	**Acquisition Date**	**Disposal Date**	**Proceeds Paid**	**Loss on Disposal**	**Proceeds Received on Disposal**
Mobile					
Beijing Yitong[1]	3/1/2007	4/30/2008	$1,973,334	$2,456,403	$0
Guangzhou Xuanwu[1]	3/1/2007	4/30/2008	$6,559,550	$6,483,157	$0
Zhengzhou Meihe[1]	3/1/2007	4/30/2008	$6,750,909	$5,846,518	$0
Shenzhen Julan[1]	3/1/2007	4/30/2008	$6,576,027	$6,190,755	$0
Zhenzhen Mengwang[1]	3/1/2007	4/30/2008	$4,497,825	$2,589,476	$0
Beijing Shiji Zhongkai[1]	3/1/2007	4/30/2008	$8,106,166	$10,552,695	$0
Jingzhun[1]	4/1/2007	4/30/2008	$9,089,616	$14,377,272	$0
Zhongyi Ruantong[1]	10/1/2007	4/30/2008	$1,191,833	$912,312	$0
Dongguan Yaya[1]	10/1/2007	2/28/2009	$1,540,612	$1,588,110	$0
Internet					
Catchstone[1]	4/16/2007	12/22/2009	$14,489,647	$11,560,617	$0
WonderAd[1]	9/15/2007	11/30/2009	$14,926,003	$14,926,003	$0
Jiahua[1]	8/15/2007	12/1/2009	$7,659,158	$7,659,158	$0
Wangmai[1]	9/1/2007	12/14/2009	$2,749,158	$2,749,158	$0
Jichuang[1]	12/1/2007	8/24/2009	$366,032	$366,032	$0
1024[1]	3/1/2008	12/18/2009	$3,397,124	$3,397,124	$0
Cool Media[2]	Aug. 2007	Dec. 2009	NA	NA	$0
Poster Frame					
Three Unidentified Subsidiaries[3]	NA	NA	NA	$3,600,000	$0
In-Store Displays					
CGEN[4]	1/2/2008	12/9/2008	$198,400,000	$190,466,256	$0
Traditional Billboard					
Tou Jia[5]	1st Half 2007	2nd Half 2009	NA	$3,600,000	$0
Total			**$288,272,994**	**$289,321,046**	**$0**

(1) 4th Amendment to the 2009 20-F, pg. 78

(2) Not disclosed in SEC filings; registered capital of RMB 500,000 per SAIC filings. Acquired by FMCN in August 2007 per SAIC filings, and returned to the original shareholder in December 2009

(3) 2010 20-F, pg. 72. Subsidiary names and consideration paid was not disclosed, and total loss on these subsidiaries was likely orders of magnitude higher than $3.6mm given that FMCN recorded write-downs of $413.8mm out of total poster frame acquisitions of $425.8mm prior to the disposal. Assuming that the disposed subsidiaries were written down at the same rate as the rest of the segment, the pre-write-down value of the subsidiaries given away would be approximately $127.7mm

(4) 2008 20-F, pgs. 58, F-4, & Exhibit 10.162 to the 2007 20-F, pg. 46. Proceeds paid includes a $30.0mm working capital loan that was used to repay a loan to CGEN from Medley Opportunity Fund prior to execution of the acquisition

(5) 2008 20-F, pg. 71, 2010 20-F, pg. 72. Proceeds paid were undisclosed, and the total loss on Tou Jia was likely orders of magnitude higher than the disclosed $3.6mm given that FMCN recorded write-downs of $32.2mm and acquisition costs of $33.3mm in the Movie Theater & Traditional Billboard segment (excluding the acquisition of Appreciate Capital Limited, an acquisition in the theater advertising space) prior to the disposal

Write-downs / Disposal Losses Per Consolidated Statements of Cash Flows						
	2005	**2006**	**2007**	**2008**	**2009**	**2010**
Loss on Disposal & Impairment (Subsidiary)	$0	$0	$0	$282,567	$66,180	($76,167)
Loss on Disposal (Equipment)	1,871	0	3,675	698	1,346	319
Impairment: Goodwill	0	0	0	596,069	87,608	5,736
Impairment: Intangibles	0	0	0	4,811	25,437	0
Impairment: Equipment	0	0	0	18,562	40,319	0
Total	$1,871	$0	$3,675	$902,707	$220,891	($70,112)
Cumulative	$1,871	$1,871	$5,546	$908,253	$1,129,144	$1,059,032

Write-downs / Disposal Losses Per Other Disclosures(1)						
	2005	2006	2007	2008	2009	2010
LCD Display Equipment for closed locations	$1,871					
Loss on Disposal: Equipment			$3,675			
Goodwill Impairment from CGEN Restructuring				$145,600		
Intangibles Impairment from CGEN Restructuring				$39,500		
Residual Impairment from CGEN Restructuring				$5,366		
Goodwill Impairment Loss (Poster Frame Network)				$376,800		
Asset Impairment Loss (LCD Display Network)				$15,300		
Target Media Intangibles Loss				$4,800		
Impairment Charge (Wireless Network)				$79,300		
Impairment of Intangibles & Goodwill (Wireless Network)				$6,000		
Other Loss on Disposal (Wireless Network)				$6,641		
Impairment Charges of Acquired Intangibles, & Fixed Assets (Internet)				$4,187		
Goodwill Impairment (Internet)				$218,400		
Goodwill Impairment (Movie Theater & Traditional Outdoor Billboard Network)				$900		
Loss on Disposal: Equipment				$698		
Equipment Impairment (Digital Poster Frames)					$6,587	
Write-off of Zong Heng Pin Yu Operating and Broadcasting Rights					$3,168	
Other Zong Heng Pin Yu Impairments					$33,732	
Goodwill Impairment (Internet)					$23,962	
Internet Advertising Subsidiaries Acquired Intangibles Impairment					$22,269	
Goodwill Writedown (Poster Frame)					$16,400	
Add'l Consideration (Poster Frame, Goodwill Instantly Impaired)					$14,000	
Catchstone - Loss on Disposal					$11,561	
WonderAd - Loss on Disposal					$14,926	
Jiahua - Loss on Disposal					$7,659	
Wangmai - Loss on Disposal					$2,749	
Jichuang - Loss on Disposal					$366	
1024 - Loss on Disposal					$3,397	
Dongguan Yaya - Loss on Disposal					$1,588	
Tou Jia - Loss on Disposal					$3,600	
Loss on Disposal: 3 Poster Frame Subs					$3,600	
Traditional Outdoor Billboards (Contingent Consideration, Immediately Impaired)					$33,250	
Loss on Disposal: Equipment					$1,346	
Impairment of Long-Lived Assets					$16,600	
Poster Frame Goodwill Impairment (Q1)						$5,736
Loss on Disposal: Equipment						$319
Gain on Disposal: Allyes						($79,000)
Unidentified Loss on Disposal						$2,833
Total	$1,871	$0	$3,675	$903,492	$220,760	($70,112)
Cumulative Write-downs & Losses	$1,871	$1,871	$5,546	$909,038	$1,193,178	$1,052,954

(1) Figures may not match those taken from the consolidated statement of cash flows due to overlap and rounding

VIII. All(Directors Say)Yes to Enriching Insiders

Greed, for lack of a better word, is good…but not for shareholders of FMCN. FMCN has always been run for the benefit of insiders. The most egregious set of actions by insiders is the series of trades they executed with FMCN in Allyes. In Human Piranha-speak, FMCN shareholders got their "faces ripped off" by insiders.[68]

Most Abhorrent Series of Transactions – Allyes

FMCN shareholders lost a total of $159.6 million on FMCN's investment in Allyes Information Technology Co. Ltd.[69] But shareholders will be comforted knowing that insiders likely made at least $70.1 million trading in Allyes on the other side of FMCN.

[68] See Lewis, Michael *Liar's Poker*, 2010 ed. p. 88.

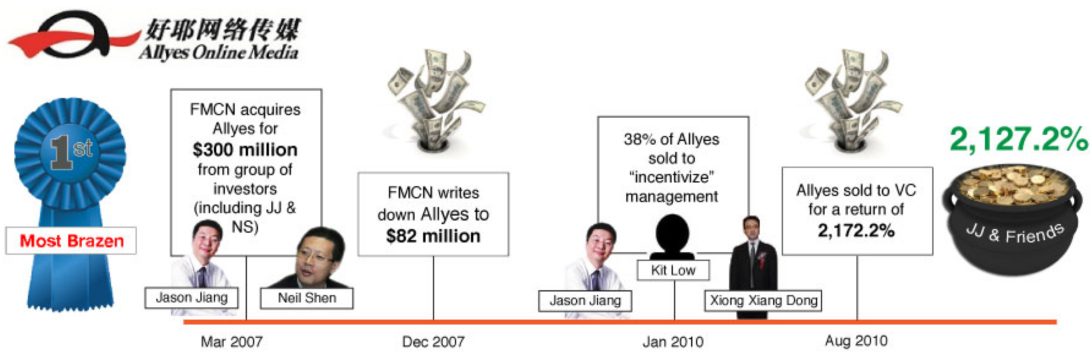
[69] Calculated as the difference between total consideration paid out in the transaction ($296,625,812 per page F-19 of the 2008 20-F) and total consideration received from Management ($13.3 million per p. 55 of the 2010 20-F) and Silver Lake ($124.0 million per p. 55 of the 2010 20-F)

[70] The insiders who profited so nicely are Jason Jiang, board member Neil Shen, CFO Kit Long, and Xiong Xiangdong. Mr. Xiong has no ostensible connection to FMCN, but he appears to have a good deal of behind the scenes involvement with FMCN.

<u>Trade I – likely putting at least $7.4 million in the pockets of Shen, Xiong, and possibly Jiang.</u>

FMCN bought Allyes on March 28, 2007 for total consideration of $296.9 million, including an earn-out recorded as $71.9 million in 2008. FMCN insiders likely received at least $7.4 million in profit in this transaction, likely at a return of at least of 150.0%. The $7.4 million estimate ignores profits we believe Mr. Jiang made on the trade; therefore, the actual profit to insiders is probably higher.

While this trade worked out well for FMCN insiders, FMCN shareholders did poorly. By Q4 2009, FMCN had written off Allyes by at least $258.4 million (including any amortization of acquired intangibles), which was a loss to shareholders of 87.0% of the original purchase price.[71]



[70] Calculated as the disclosed consideration received by insider sellers on the initial sale of Allyes ($7.4 million) to FMCN difference between the implied valuation for their share of the company based on the price paid by Silver Lake (38% * $124.0 million / 62% = $76.0 million) and the consideration paid by Management ($13.3 million)

[71] Focus Media reports write-downs, making it difficult to attribute them to specific acquisitions. As a result, we calculated the write-downs by subtracting the value of the acquired intangibles and goodwill at the time of disposal to Silver Lake ($16.3 million, taken from the 2010 20-F, pp. F-18 to F-19) from the value of the acquired intangibles and goodwill attributed to the purchase and contingent consideration ($274.7 million, taken from the 2008 20-F, p. F-19). Since there were no write-downs in 2010 for the internet segment, this must have been the sum of write-downs at the end of 2009 as well. The total actual write-downs attributable to Allyes may be higher since this estimate ignores any write-downs that reduced the book value of items other than goodwill and acquired intangibles

According to FMCN's filings, Mr. Jiang was an Allyes shareholder[72] by January 23, 2006, and still owned FMCN shares as of September 18, 2006.[73] We were unable to determine whether any of the ultimate sellers of Allyes were entities that Mr. Jiang beneficially owned, so we are unclear as to his profit on this transaction. However, we expect that he made a profit along with his friends, Messrs. Shen and Xiong who seem to have realized at least $7.4 million in personal profits.

In order to estimate the amounts of Messrs. Shen and Xiong's profits, we assumed that they purchased their stakes in on March 13, 2005 at a valuation of $120 million, which Asian Private Equity Review estimates was the implied value of the transaction.[74] Based on the aforementioned assumptions and the share purchase agreement Allyes executed with FMCN, each realized profits in the following manner:

Allyes Trade I
(US$ 000s)

Insider	Entity Name	% of Allyes	Basis[1]	Sale	**Profit**	**Profit %**
Xiong Xiang Dong	Aura Investment Holdings Ltd.	3.65%	4,380	10,950	**6,570**	**150.0%**
Neil Nanpeng Shen	Smart Master International Ltd. (BVI)	0.45%	540	1,350	**810**	**150.0%**
Jason Nanchun Jiang	[unknown]	N/A	N/A	N/A	**N/A**	**N/A**

(1) Assuming the purchase occurred on 3/15/05 at an implied value of $120 million.

Trade II – Insiders Buy 38% of Allyes at the Outrageously Low Price of $13.3 million (Implied Valuation of $35 million), a Discount to Cash Value.

72 Mr. Jiang's ownership was made clear on page 22 of Exhibit 1.1 (the underwriting agreement) of registration statements. (http://sec.gov/Archives/edgar/data/1330017/000114554906000093/h00274a1exv1w1.txt): "(lxxiv) None of the Company nor any of the Group Entities and the businesses or entities operated or owned by the Company and the Group Entities, nor any of their respective officers, directors or senior management (as defined under Section F of Form 20-F), key management personnel (as defined under Item 7.B of Form 20-F), or, to the best knowledge of the Company, the Company's agents or employees, directly or indirectly, own any interest in any entity, or have entered into any transactions that may compete with the Company and the Group Entities or are otherwise involved in the businesses of the Company and the Group Entities as described in the Pricing Prospectus and the Prospectus, except for (i) ownership, directly or indirectly, by the Controlling Person of equity securities (or securities convertible or exchangeable into or exercisable for such equity securities) in Allyes Information Technology Company Limited solely for passive investment purposes, and (ii) ownership, directly or indirectly, by the unrelated third party minority equity interest holders (that are not nominee holders holding on behalf of any of the Group Entities) of the remaining equity interests of the Focus Media Advertisement Subsidiaries as described in the Pricing Prospectus under the caption "Our Corporate Structure - Subsidiaries of Focus Media Advertisement," and for which the Company has no knowledge of any such persons or entities owning any direct or indirect interest in, or having any other involvement in, any business that competes with the Company or the Group Entities."

73 September 18, 2006 F-3, pp. 25-26

74 http://www.asiape.com/apergc/apergc_issues/apergc1009.html

In order to provide them with incentive, a group of insiders bought 38% of Allyes for $13.3 million on January 10, 2010. This transaction valued Allyes at $35.0 million, which was less than its cash on hand of $40.0 million and its book value of $60.0 million. This purchase price is unjustifiable, as it is theft – plain and simple. Below is a summary financial statement for Allyes as of July 30, 2010 (disposal date to Silver Lake)[75]:

Allyes Balance Sheet
($000s)
30-Jul-10

Cash and equivalents	40,665	A/P	49,746
A/R	59,394	Accrued expenses and other current liabilities	14,284
Other current assets	8,943	Income taxes payable	4,106
Total current assets	109,002	Total current liabilities	68,136
Acquired intangible assets, net	12,004	Total long-term liabilities	1,705
Goodwill	4,272		
Other long-term assets	2,903	Total liabilities	69,841
Total long-term assets	19,179		
		Non-controlling interest	15,993
Total assets	128,181	Accumulated and other comprehensive income	4,730

The following explanation is one of the more ludicrous statements Muddy Waters has ever seen in a SEC filing (emphasis added):

> Certain employees of the Internet segment, management and directors and certain members of the Company's management and directors entered into a definitive agreement with the Company and Allyes in January 2010 to buy-out an aggregate 38% interest in Allyes from the Company for $13.3 million. The transaction was approved by all independent directors on the board. This transaction was part of initiatives being taken by the Company to incentivize management to enhance the future business model of Allyes and thereby to seek long term sustainable growth for the company and investors. 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.[76]

We are curious as to how FMCN and the board determined that Allyes was worth less than the cash and equivalents, and just over half of book value.

The table below shows the entities and "certain" beneficial owners who participated in the partial buy-out.[77]

[75] 2010 20-F, pp. F-18 – F-19

[76] 2010 20-F, p. 98.

[77] http://www.sec.gov/Archives/edgar/data/1330017/000095012310061990/h04315exv10w185.htm, pp. 1, 19.

Allyes Trade II (US$ 000s)			
Insider	Entity Name	% of Allyes	Basis
Jason Nanchun Jiang	Topnoch Investments Holdings Ltd. (BVI)(1)	14.77%	$4,728
Xiong Xiang Dong	Advantage Enterprise Holdings Ltd. (BVI)	6.23%	$1,995
Xiong Xiang Dong	Perfect Crown Investments Ltd. (BVI)	4.37%	$1,400
Kit Leong Low	[As an individual investor]	3.00%	$961
James Jian Zhang	JJZ Investment Ltd. (BVI)	0.87%	$280
[unknown]	Bronco Venture Ltd. (BVI)	2.00%	$641
[unknown]	Unidex Holdings Ltd. (BVI)	1.00%	$320

(1) We were unable to locate a Topnoch or Topnotch Investments Holdings in the BVI companies registry. We located a "Topnotch Investments Ltd" (more recently called Peregrine Direct Investments Ltd.) that was stricken from the registry in 2007.

CEO Jason Jiang owned the equivalent of 28.2 million ADSs at the time, which had a market value of approximately $476 million as of January 10, 2010. Muddy Waters does not comprehend why he needed further incentive to do his job.[78] Some old-fashioned investors might believe that Mr. Jiang should atone for blowing nearly $300 million of shareholder money on Allyes in the first place, and should have "enhanced the future business model of Allyes" merely for the compensation he receives under his existing employment agreement. Yes, it would be bitter medicine to swallow, but doing so would surely be one of the better character building experiences of his life.

Kit Low had only recently become FMCN's new CFO when he bought into Allyes.[79] We therefore assume that the salary and bonus package he and FMCN had negotiated did not include incentives for him to enhance Allyes's future business model either. We only wish that FMCN would have compensated him in a more transparent way, rather than (by accident, we are sure) requiring investors to read the signature section of the share purchase agreement, which is Exhibit 10.185 to the 2009 20-F.

Venture capitalist Xiong Xiangdong resurfaces. We have no idea how his bargain purchase of Allyes shares benefitted FMCN investors. It should be noted that the signatory for each of the above entities is his wife. His wife is a co-director (along with Mr. Jiang) of FMCN's Singapore subsidiary. However, we believe that the bargain purchase is not compensation or incentive for her services, as the Singapore entity (per its audited financial statements) produces zero revenue. Further, she signed for herself and sold shares in China Kanghui Holdings (KH). She has no known affiliation with KH, but her husband's employer, IDG Capital Partners, was the lead investor in KH.

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[78] One of our team is reminded of a story about a dinner meeting of senior law firm partners from Asian offices and their direct superior, who was visiting from the US, that took place at the end of 2008. The Asia partners repeatedly mentioned they were worried about their abilities to generate business because of the financial crisis. After hearing this long enough, the US partner exploded in an expletive-filled tirade, pointing at each one in turn while yelling near top volume "YOU do YOUR job! And YOU do YOUR job! YOU do YOUR job!!!" He then threw his napkin on the table and left. We think FMCN management would benefit from similar oversight.

[79] http://ir.focusmedia.cn/phoenix.zhtml?c=190067&p=irol-newsArticle&ID=1373336&highlight=

James Jian Zhang is a very curious participant. He was previously the chairman of Duoyuan Printing Inc.'s audit committee. (OTC: DYNP.PK) DYNP was de-listed amid suspicions of fraud. Muddy Waters exposed its sister company, Duoyuan Global Water, Inc. as a fraud on April 4, 2011.[80] Mr. Jian Zhang is currently the CFO of LaShou Group, Inc, an upcoming IPO. The only benefit to FMCN shareholders of including Mr. Jian Zhang in this group seems to be to highlight his involvement in another soon-to-be public company. We look forward to LaShou's debut on the United States market.

<u>Trade III – FMCN Insiders Flip to a VC Fund for a $53.2 Million Implied Profit. FMCN Shareholders Realize a $162.5 Million Loss.</u>

On August 3rd, 2010, Silver Lake Partners acquired 90.8%[81] of Allyes for a total of $181.0 million. The insiders who sold to Silver Lake received 5.7x on their investments in only seven months, which is an annualized IRR of 2,127.2%. The SEC took note of this outsize return as well, and sent FMCN letters on September 22, 2010 querying the rationale for the bargain sales[82] and on November 15, 2011 questioning how Allyes's value increased so much after the insiders took their stakes.[83]

The insiders sold two-thirds of their holdings to Silver Lake, and kept the one-third. The breakdown and profits by insider (assuming each sold to Silver Lake) are below:

Allyes Trade III
(US$ 000s)

Insider	Entity Name	% of Allyes	Basis	Implied Sale	**Net Profit**	**Ann. IRR%**
Jason Nanchun Jiang	Topnoch Investments Holdings Ltd. (BVI)(1)	14.77%	$4,728	$29,530	**$24,802**	**2127.2%**
Xiong Xiang Dong	Advantage Enterprise Holdings Ltd. (BVI)	6.23%	$1,995	$12,459	**$10,464**	**2127.2%**
Xiong Xiang Dong	Perfect Crown Investments Ltd. (BVI)	4.37%	$1,400	$8,743	**$7,343**	**2127.2%**
Kit Leong Low	[As an individual investor]	3.00%	$961	$6,000	**$5,039**	**2127.2%**
James Jian Zhang	JJZ Investment Ltd. (BVI)	0.87%	$280	$1,749	**$1,469**	**2127.2%**
[unknown]	Bronco Venture Ltd. (BVI)	2.00%	$641	$4,000	**$3,360**	**2127.2%**
[unknown]	Unidex Holdings Ltd. (BVI)	1.00%	$320	$2,000	**$1,680**	**2127.2%**

(1) We were unable to locate a Topnoch or Topnotch Investments Holdings in the BVI companies registry.

One of the questions remaining is: Who held onto their stakes? Assuming that the insiders did not sell partial stakes, then there are a maximum of three possible combinations of remaining shareholders. (Depending on rounding, Combination C may not be a possibility.)

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80 http://www.muddywatersresearch.com/research/dgw/initiating-coverage-dgw/

81 Not publicly disclosed by either party; figure obtained through independent research

82 http://www.sec.gov/Archives/edgar/data/1330017/000000000011005757/filename1.pdf , p. 8

83 http://www.sec.gov/Archives/edgar/data/1330017/000000000011005758/filename1.pdf, p. 4

Insider	Entity Name	% of Allyes
Combination A		
Xiong Xiang Dong	Advantage Enterprise Holdings Ltd. (BVI)	6.23%
[unknown]	Bronco Venture Ltd. (BVI)	2.00%
[unknown]	Unidex Holdings Ltd. (BVI)	1.00%
Total - Combination A		**9.23%**
Combination B		
Xiong Xiang Dong	Advantage Enterprise Holdings Ltd. (BVI)	6.23%
Kit Leong Low	[As an individual investor]	3.00%
Total - Combination B		**9.23%**
Combination C		
Xiong Xiang Dong	Perfect Crown Investments Ltd. (BVI)	4.37%
Kit Leong Low	[As an individual investor]	3.00%
James Jian Zhang	JJZ Investment Ltd. (BVI)	0.87%
[unknown]	Unidex Holdings Ltd. (BVI)	1.00%
Total - Combination C		**9.25%**

From the above analysis, we think it is likely that the insider group had an eye toward an exit when they took their stake. In all scenarios, Xiong Xiangdong must have one of his entities continue to hold Allyes shares if Silver Lake does in fact own 90.8%. The likely explanation as to why Mr. Xiong split his stake between two entities is that he intended to flip one for a profitable exit, and use the profit to essentially give himself a free option on Allyes going public.

This brings up other questions, including:

- When did FMCN first begin discussing selling Allyes to SilverLake and any other potential buyers?
- Which entities still hold their shares in Allyes?
- Who are the parties associated with Bronco Ventures and Unidex Holdings?

If it turns out that insiders allowed itself the opportunity for further upside, this heist would be even more brazen.

IX. How to Fail in Business Without Really Trying: Phantom Acquisitions and Write-Downs

FMCN fraudulently claimed to have acquired six mobile handset advertising companies that it in fact never acquired. In FMCN's 2009 20-F, it claimed to have written down nine companies in its mobile handset division on April 30, 2008 and February 28, 2009 for a loss on disposal of $50.9 million.[84] There is a small problem with this disclosure though. FMCN had never owned six of those companies.

These six phantom acquisitions constituted a $41.8 million loss in FMCN's filings. FMCN claimed to take the write-downs and dispose of the businesses because of adverse publicity these companies received for illegal spam marketing on March 15, 2008. However, we see from the SAIC files that even if FMCN had owned the companies, their full year performance in 2008 was substantially better than in 2007.

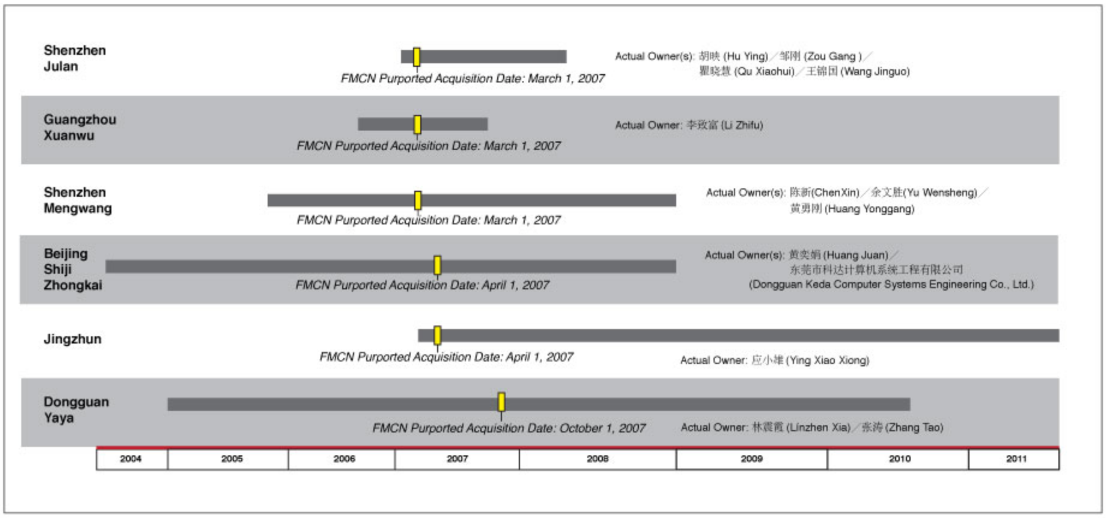
[84] 4th Amendment to the 2009 20-F, p. 78.

Therefore (again, even in FMCN had really owned these companies), poor performance was a false pretext for disposing of them at a 115% loss.

- Were shareholder funds transferred out for these purported acquisitions, and if so, to whom?
- Aside from the possibility of diverting shareholder funds, what is the purpose of claiming acquisitions and disposal losses that never occurred?

SAIC Files and Other Research Show FMCN Never Owned the Six Companies

The timeline below shows the actual shareholder of each company at the time FMCN claims to have acquired it, along with the dates on which such shareholders acquired and disposed of their holdings.



FMCN claimed that it, or one or more of its subsidiaries, acquired and disposed of these phantom mobile entities.[85] Obviously, that was not the case. Nor were any other FMCN entities shareholders of these entities.

We preclude the possibility that FMCN acquired these six companies as VIEs for the following reasons:

There were no changes of the shareholders, company directors, or legal representatives of these companies at the time FMCN claims to have acquired them. Nor are there any records of pledges of the equity. If acquiring a VIE, the acquirer would typically change all of the aforementioned positions, and would record a pledge of the VIE's equity (if one were not already in existence). Without changing at least some of the positions, an acquirer would have little effective control of the VIE.

When FMCN has acquired VIEs, it has typically followed these standard practices and replaced all of the positions mentioned above. It has also typically perfected equity

[85] Amendment 4 to the 2009 20-F, p. 78

pledges. One example of FMCN acquiring a VIE in this manner is its acquisition of Beijing Yitong Wireless Information Technology Co., Ltd ("Yitong"). Yitong is one of the two to four companies[86] in the mobile handset division that FMCN did actually acquire. When FMCN acquired Yitong, it made the below changes:

Yitong Acquisition		
	Before Acquisition	**After Acquisition**
Shareholder	Zhang Yu	Shanghai Focus Media Advertising Co., Ltd
Shareholder	Wang Taoying	Shanghai Focus Media Advertising Agency Co., Ltd
Legal Representative	Zhang Yu	Dong Yong Hong
Executive Director	Zhang Yu	Dong Yong Hong
Supervisor	Wang Taoying	Wang Taoying
Manager	Zhou Ming Tao	Dong Yong Hong

We spoke with multiple companies in this group, and each confirmed that FMCN never owned or controlled them. There were indications that FMCN may have been a client of these companies.

Disclosures in the 2008 and 2009 20-Fs[87] about the acquisition and disposal date of the largest of the phantom acquisitions, Shenzhen Jingzhun, are materially different from one another and are mutually exclusive. FMCN slyly attempted to rewrite history in order to disguise inconsistencies in its story about the purported loss on disposal of (never acquired) Jingzhun.

Both disclosures were made in the Legal Proceedings section and referred to an arbitration claim that the would-be selling shareholder of Jingzhun brought against FMCN for $15.6 million purportedly for unpaid acquisition consideration. (As shown in the table supra, Mr. Ying Ping's ownership remained constant at the time FMCN claimed to acquire Jingzhun)

Ying Ping, the primary registered capital holder of the largest of phantom mobile acquisition companies, initiated an arbitration proceeding against FMCN on February 11, 2009. According to FMCN's disclosure in the 2008 20-F, Mr. Ying was seeking $15.6 million in unpaid consideration for his registered capital in February 2009. This amount is roughly equal to the loss on disposal FMCN recorded on April 30, 2008. However, if FMCN had not actually paid Ying Ping for his firm (which is what he claimed and what the judgment appears to prove true), then FMCN would have had nothing to impair.

FMCN claims that the acquisition was returned to Ying Ping for zero consideration, so the loss on disposal would have been a write-down to zero. It is clear that Ying Ping is claiming that he was never paid the acquisition consideration. FMCN ultimately settled the arbitration by paying $5.5 million in March 2010, which validates Mr. Ying's claim

[86] We were able to confirm that FMCN acquired two mobile handset companies, and we were unable to obtain complete SAIC files on the other two companies

[87] 2008 20-F, p. 98 & 2009 20-F, p. 99

that FMCN owed him money.[88] Muddy Waters thinks that the contract in question could have been a service contract, rather than a purchase agreement.

There is a very subtle but critical difference between the descriptions of this arbitration proceeding in the 2008 and 2009 20-Fs. The wording of each is shown below with differences underlined.

2008 20-F:

> On <u>February 11, 2009</u>, 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, <u>(i) to continue to perform a Share Purchase Agreement, dated as of March 20, 2007, between Ying Ping and us; (ii) to pay a share purchase price in the amount of RMB106.56 million and accrued interests thereof; and (iii) to bear their legal counsel fee in the amount of RMB 2.3 million and other relevant arbitration costs</u>. The CIETAC accepted Ying Ping's application for arbitration on February 24, 2009 and no arbitration session has been held yet. The Group believes it has meritorious defenses to the claims alleged and intends to defend against such claims vigorously. The Group had accrued approximately $7.5 million as contingent consideration as of December 31, 2008 which reflects its best estimate of the ultimate settlement amount.[89]

2009 20-F:

> On <u>February 11, 2008</u>, Ying Ping, a PRC citizen, filed an arbitration application in Beijing with China International Economic and Trade Arbitration Commission ("CIETAC") against us, requesting us, <u>(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</u>. 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.[90]

The above shows that either FMCN's counsel made a curious error in the 2009 20-F, or FMCN employed a memory hole trick to try to change history. The 2008 20-F date is obviously the correct one – otherwise the disclosure would have been made in the 2007 20-F or at some other point in time prior to the 2008 20-F, and would have required a functioning time machine (the second excerpt refers to an arbitration application filed on February 11, 2008 concerning a Share Purchase Agreement dated March 20, 2008).

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[88] 2010 20-F, p. 97

[89] 2008 20-F, p. 98

[90] 2009 20-F, p. 97

The advantage to be gained by changing the date in the 2009 20-F would have been to hide the fact that FMCN had not paid any consideration for Yitong at the time it wrote the acquisition off in 2008.

FMCN's 2007 filings further show that FMCN never acquired these companies. FMCN does not list any of these six companies in subsidiary list of its 2007 20-F; however, it does list two mobile companies[91] we confirmed FMCN did acquire as subsidiaries. Further, the absence of any commentary about the acquisitions as being a reason for the increase in mobile advertising revenue in 2007 in any of the quarterly 6-K filings or the 2007 20-F is conspicuous. According to these seven companies' SAIC files, they generated combined 2007 revenue of $18.0 million, which was 38.4% of FMCN's 2007 mobile advertising revenue.

A CCTV program focused on consumer rights pertaining to text message spam contained an interview with the Special Assistant to the General Manager of Shenzhen Julan, Ms. Wang. She stated that FMCN had no relationship, much less own, the company. A follow-up article covering the report contained the following excerpt:

> "The reporter came to Shenzhen Julan Information Technology Co., Ltd. The special assistant to the General Manager received us. The reporter asked, "Do you have any relationship with Focus Wireless?" The special assistant to the General Manager replied "No relationship."[92]

Even if FMCN had acquired these six companies in 2007, it would have had no basis to dispose of them for zero consideration. Per the SAIC financial statements (summarized below), the phantom acquisitions generally did well in 2008 compared to 2007. It seems that only a company looking for write-downs would have written these businesses down to zero.

Mobile Entities Financial Results
(US$)

English Name	2006 Revenue	2006 Net Income	2007 Revenue	2007 Net Income	2008 Revenue	2008 Net Income	2009 Revenue	2009 Net Income
Beijing Yitong	$662,701	$3,114	$2,088,001	$1,035,683	$536,143	$131,545	$43,672	($175,144)
Guangzhou Xuanwu	18,598	(10,116)	379,521	950	602,084	593	362,398	(12,045)
Shenzhen Julan	1,534,701	27,928	3,096,453	105,689	1,234,190	130,298	183,518	(285,296)
Shenzhen Mengwang	375,188	19,850	2,219,795	(506)	3,046,999	538,529	12,201,922	4,251,309
Beijing Shiji Zhongkai	180,944	(594)	2,655,954	866,369	3,581,734	286,965	1,872,401	17,944
Jingzhun	294,776	6,267	5,978,432	2,931,961	10,864,535	(500,779)	NA	NA
Dongguan Yaya	707,279	153,684	913,549	425,638	513,519	152,909	231,874	0
Dotad Media Holdings	1,288,028	(580,555)	16,094,478	(791)	55,348,084	36,087,465	23,917,915	19,344,779
Total	**$5,062,216**	**($380,421)**	**$33,426,183**	**$5,364,994**	**$75,727,288**	**$36,827,526**	**$38,813,701**	**$23,141,547**
Focus Media Mobile Advertising Network Revenue	**$10,101,000**	**NA**	**$46,909,000**	**NA**	**$12,317,668**	**NA**	**NA**	**NA**

On the other hand, facts surrounding the one mobile company that FMCN did acquire and keep, Dotad Media Holdings Limited ("Dotad"), suggest self dealing or other impropriety on the part of FMCN management. Dotad is a SMS advertising company that FMCN acquired in March 2006. Dotad's CEO under FMCN, Xu Maodong, took

[91] Beijing Focus Media Wireless Co., Ltd. & Beijing Yitong Wireless Information Technology Co., Ltd.

[92] http://www.cctv.com/program/jjbxs/20080323/100133.shtml

over a startup competitor, BFTL,[93] right after leaving his position at FMCN as Dotad CEO.[94] FMCN not only failed to enforce a non-compete agreement, but an FMCN employee[95] was one of two transferors of ownership of BFTL to Mr. Xu. Further, FMCN transferred one of its subsidiaries, Yitong, to BFTL. BFTL (with Mr. Xu still running it) went on to raise $100 million from Telstra and Softbank in 2010,[96] and appears to be thriving.

X. Shipwrecked: $36.9 million Loss on Boat Advertising in 14 Months

In January 2009, just 14 months after it acquired the business, FMCN took a $36.9 million aggregate impairment related to a boat advertising business. FMCN's cost of $24.2 million for the company was 7.4x its established market value. We estimate that FMCN significantly overpaid for the PP&E – namely a boat christened the Captain Six[97] and related renovations – in the business as well. The size and fact of FMCN's overpayment for the company at the time was so obvious – particularly because the sellers had recently agreed to sell the company at a fraction of FMCN's cost – that we are incredulous of management's explanations of the transaction.

FMCN overpaid by at least 7.4x for a company that it wrote down to zero 14 months later. In October 2007, FMCN acquired a company, Zong Heng Pin Yu ("ZHPY"), which had a license to operate a LED advertising boat on the Huangpu River in Shanghai. FMCN appears to have paid at least $27.4 million[98] for this company. Court

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[93] Bai Fen Tong Lian, or Lmobile.

[94] http://it.sohu.com/20100510/n272011240.shtml

[95] Per résumé contained in SAIC files, we know he was an employee of an FMCN Wireless subsidiary

[96] Lmobile.cn/about.html

[97] http://www.21cbh.com/HTML/2007-12-21/HTML_Y7TD88ODVIFL.html

[98] FMCN does not state what it paid for the company; however, it discloses that the $36.9 million aggregate impairment consisted of $9.5 million in PP&E (the boat, renovation, and equipment, which

documents show that only three months earlier, the prior shareholders of ZHPY had executed a purchase and sale agreement to sell 90% of ZHPY for $3.3 million. (The would-be purchaser failed to pay the deposit on time, but subsequently sued for specific performance of the purchase and sale agreement.) The implied valuation of ZHPY was therefore $3.7 million. FMCN paid at least 7.4x as much as the implied value of the previously negotiated transaction.

FMCN bought the boat, the Captain Six, separately for at least $12.4 million[99], which we estimate is 3.2x ($8.5 million) more than it should have cost. Below is a picture of the Captain Six:

We estimate that the total cost of the boat and its renovations should have been no more than $3.9 million, versus the minimum of $12.4 million that FMCN paid for the boat and equipment. FMCN's boat appears to be a standard 40-meter steel-hulled, diesel propelled freighter commonly utilized for intra-harbor transfers and coastal shipping. Boats of this type are easy to acquire, have limited competitive advantage, and trade frequently in the secondary market. Based on quotes provided by Meridian Marine Brokerage, we estimate the acquisition of the boat itself to cost at most $1.0 million.

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were purchased separate from ZHPY), and $3.2 million in intangible assets (ZHPY's license and patent). We therefore assume that the balance of $24.2 million is for ZHPY, including goodwill. The combination of the intangible assets and goodwill yields a $27.4 million purchase price for ZHPY. Note that FMCN has not specifically stated that it wrote down the values to zero. If FMCN maintains a residual value, then the payment and overpayment amounts would be correspondingly higher.

[99] Q1 2009 6-K, June 19, 2009

Multiple manufacturers produce large-scale, outdoor grade LED advertising screens that could be easily adapted for use in a maritime environment. Specifically, Mitsubishi Electric Diamond Vision quoted the cost of a dual-sided 21x7 meter[100] LED screen suitable for maritime use, portable power supply, and ancillary equipment at $1.9 million. Mitsubishi Electric Diamond Vision is a world leader in producing large-size LED digital outdoor billboards and has provided record-setting jumbo screens at the Jockey Club in Hong Kong, Cowboys Stadium in Dallas, Texas, and the Kiryu Boat Race Course in Kiryu, Japan. Allowing for conversion capital expenditures of $1.0 million yields a total boat cost of approximately $3.9 million.

Boat Advertising Platform Cost Analysis

Item	Description	Source	$mm
Boat	40-meter steel-hulled, diesel freighter	Meridian Marine Brokerage	$1.0
LED Screen	21x7 meter, dual-sided LED screen	Mitsubishi Electric Diamond Vision	$1.9
Conversion CAPEX	Screen Installation and Ancillary Equipment	Mitsubishi Electric Diamond Vision	$1.0
	Total Estimated Boat Cost:		**$3.9**
	Focus Media Claimed Boat Costs		**$9.5**
	$ difference		*$5.6*
	% difference		*244%*

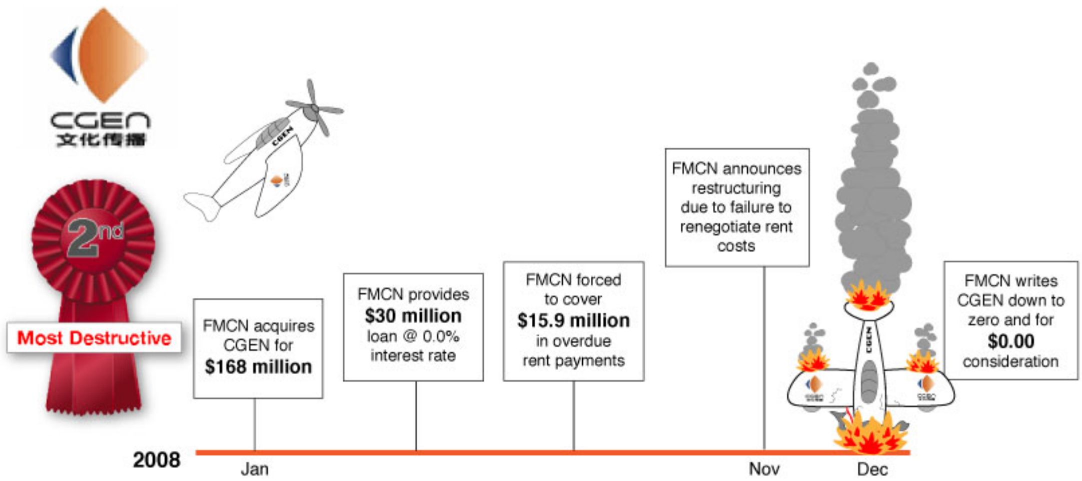
From a shareholder value perspective, there would have been more residual value available if FMCN had purchased a luxury yacht instead of starting a boat advertising business. FMCN could have acquired the 60-meter "Meduse" (built by Feadship of the Netherlands, previously owned by Paul Allen, and recently renovated) for $36.4 million. Meduse features accommodations for 12 guests in seven cabins, a helicopter deck, cinema, recording studio, gymnasium, and elevator. Additional information on the Meduse luxury yacht is available at:
http://www.fraseryachts.com/sale/sale_gallery.aspx?YachtID=Y3520_MC


[100] This is roughly same size as that of the LED screen on the Captain Six – see FMCN 6-K dated 12/11/07

XI. FMCN Acquires a Direct Competitor and Loses $198.4 Million[101] in 11 Months When Bizarre Business Plan Fails

Summary

On the surface, FMCN's acquisition of CGEN is a shocking display of corporate ineptitude that destroyed $198.4 million in shareholder value in 11 months. Based on our observations that FMCN deliberately overpays for acquisitions and then seeks to impair them, we have a difficult time believing that FMCN made a good faith effort to ensure the acquisition's success. This transaction is yet another example of why Muddy Waters believes that FMCN management is toxic to shareholders.



On December 10, 2007, FMCN entered into a definitive agreement to acquire CGEN Digital Media Company Limited ("CGEN"), a direct competitor and ostensibly a leading operator of an in-store digital advertising network in China. The transaction was purportedly designed to increase FMCN's market penetration in the digital advertising space for LCD displays in large chain stores in China. There were supposedly synergies with FMCN's existing in-store platform.

Under the terms of the December 10, 2007 acquisition agreement, FMCN acquired 100% of the equity of CGEN for $168.4 million in cash, and an additional payment of up to $181.6 million, part in cash and part in FMCN ordinary shares (valued at US$53.42 per ADS, each of which represents five FMCN ordinary shares), contingent upon CGEN meeting certain earnings targets during the twenty four month period following the closing of the transaction, for a total potential payment consideration of $350.0 million.

[101] $198.4 million calculated as the sum of the cash consideration paid to selling shareholders ($168.4 million) along with the additional cash used to repay a $30.0 million loan owed by CGEN prior to the acquisition. Figures taken from the Share Purchase Agreement between Focus Media and CGEN (exhibit 10.162 to the 2007 20-F, pp. 12-13 & 46)

All FMCN shares to be issued in under the earn-out payments would be new issuances. According to FMCN Management at the time of the transaction announcement, the acquisition agreement valued CGEN at 17.5x FY08E net income and was expected to be accretive to FMCN's EPS in FY08. Under the terms of the acquisition agreement, FMCN was on the hook for a shockingly large $80.0m liquidated damages cash payment to the CGEN sellers for compensation of the firm's "initial public offering option value" if FMCN failed to close the transaction.[102] These egregious contract terms would come back to haunt FMCN shareholders shortly.

Summary CGEN 12/10/07 Acquisition Terms ($USD mm, except per share data)			
Initial Purchase Price			$168.4
Potential 24-Month Earn-Outs			$181.6
Total Potential Consideration			$350.0
Revenue Multiples at Initial Purchase Price	2006A	$20.80	8.1x
	06/30/07 LTM	$33.36	5.0x
Net Income Multiples at Initial Purchase Price	2006A	($0.61)	NM
	06/30/07 LTM	$8.06	20.9x
	2008E	$9.63	17.5x
Liquidated Damages for Failure to Close Transaction			$80.0

Ironically, back on March 16, 2006, CGEN had commenced a $1.7 million litigation case against FMCN and the Hymart chain of supermarkets in Shanghai because of FMCN's interference with CGEN's exclusive business contract with Hymart. In order to gain business with Hymart, FMCN agreed to compensate Hymart for the legal costs with defending itself against the CGEN litigation. The lawsuit was eventually dismissed for technical reasons, just a few months before the acquisition announcement. It is difficult to understand how a litigious competitor could become a worthy acquisition target at a premium valuation in such a short period.

FMCN's Short CGEN Operating History

On January 2, 2008, FMCN completed the acquisition of CGEN; FMCN made its required cash payment of $168.4 million to the former CGEN shareholders and the former CGEN shareholders delivered 100% of the equity interest in CGEN. As per the terms of the final acquisition agreement, FMCN was required to inject an additional $30.0 million working capital loan at an 0.0% interest rate to finance CGEN's ongoing business operations within seven days of the transaction closing. However, according to CGEN's SAIC filings, FMCN had pre-funded this below-market working capital loan before the end of fiscal year 2007. This early funding of the working capital facility is yet another red-flag as it implies CGEN had serious liquidity issues that FMCN knew about prior to closing the acquisition.

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[102] 2007 20-F, Exhibit 10.162, pp. 54-55

The professed strategic rationale for the acquisition of CGEN was to consolidate the in-store advertising market with the aspiration 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 demanded FMCN maintain the multi-year rental fee agreements entered into by CGEN prior to the acquisition and mandated FMCN pay for CGEN's overdue rental fees, which amounted to $15.9 million or an additional cash outflow of approximately 10% of the total consideration paid for CGEN.

11-Month Implosion and $0.00 Divestiture

On November 10, 2008, just 10 short months after the close of the acquisition, FMCN announced it was considering restructuring options in the fourth quarter for the CGEN business due to its failure to reduce the location cost of its in-store advertising.

On December 8, 2008, FMCN disposed 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. FMCN sold for zero consideration CGEN's PRC operating affiliate, CGEN Media Advertising Co., Ltd. ("CGEN Media"), including all accounts receivables and account payables, to a third party, who FMCN claimed was neither related to the company nor an original CGEN owners. Despite the disposition of CGEN Media, FMCN accounted for the CGEN results as part of results from continuing operations in the year ended December 31, 2008 via an aggressive accounting treatment.

As further evidence that the CGEN acquisition price was egregious for FMCN shareholders, the original selling shareholders of CGEN agreed to terminate their additional payment earn-outs for zero consideration on December 8, 2008, which was the same day FMCN announced the write-down. Interestingly, CGEN selling shareholders agreed to this termination prior to the end of the fiscal year, which implies the business results must have been so abysmal that there was no hope for meeting the earnings hurdles for full year 2008 or any year going forward. This again calls into question the motivation of FMCN management for pursuing the CGEN acquisition.

Summary

The CGEN transaction provides insight to FMCN's standard operating procedures. First, massively overpay for the business. Next, crash the business. Finally, divest the business for no consideration.

XII. Turning a Rare Winner Into a Loser – Possibly to Facilitate More Self-Dealing

FMCN owned 33% of a joint venture internet advertising agency in China with Dentsu Incorporated ("Dentsu"), &c, Incorporated (pronounced "et cetera"). &c, Inc. ("&c") turned into a great performer for FMCN…that is until FMCN sold its stake back to

Dentsu in February 2010 for a loss, and $56.9 million below our estimate of its value. We do not know why FMCN sold it at such a below market price, but there are signs that the bargain sale may have to do with enabling FMCN management to engage in a self-dealing transaction.

In May 2008, FMCN and Dentsu formed &c. FMCN contributed $3.0 million in equity through FMCN's Hong Kong subsidiary, Hua Kuang Advertising Company Limited in exchange for a 33% stake. Dentsu contributed $6.0 million for the remaining ownership. The young company's top and bottom lines grew rapidly (as shown below).

&c, Incorporated SAIC Financials (RMB¥ 000s)	2008	2009	2010
Revenues	$185,963	$517,550	$756,503
Cost of Sales	(159,666)	(415,859)	NA
Business Tax	(2,378)	(9,169)	NA
Selling & Marketing	(7,960)	(27,195)	NA
General & Administrative	(5,399)	(17,071)	NA
Financial Income[1]	262	903	NA
Other Expenses	(15)	(26)	NA
Pre-tax Profit	10,808	49,134	78,391
Net Income / (Loss)	8,058	36,737	58,448
Cash	66,922	31,113	NA
Accounts Receivable	101,993	215,030	NA
Total Assets	171,889	262,639	363,610
Accounts Payable	96,630	137,710	NA
Taxes Payable	2,880	11,230	NA
Total Liabilities	102,240	156,252	198,776
Total Tax Payment	4,501	19,259	38,581
Net Assets	$69,649	$106,387	$164,834

(1) Defined as income resulting from interest and foreign-currency translation adjustments

&c, Incorporated SAIC Financials (USD$ 000s)[1]	2008	2009	2010
Revenues	$26,876	$75,782	$111,904
Cost of Sales	(23,075)	(60,892)	NA
Business Tax	(344)	(1,343)	NA
Selling & Marketing	(1,150)	(3,982)	NA
General & Administrative	(780)	(2,500)	NA
Financial Income[2]	38	132	NA
Other Expenses	(2)	(4)	NA
Pre-tax Profit	1,562	7,194	11,596
Net Income / (Loss)	1,165	5,379	8,646
Cash	9,809	4,558	NA
Accounts Receivable	14,950	31,502	NA
Total Assets	25,194	38,477	55,092
Accounts Payable	14,163	20,175	NA
Taxes Payable	422	1,645	NA
Total Liabilities	14,986	22,891	30,118
Total Tax Payment	660	2,821	5,846
Net Assets	$10,209	$15,586	$24,975

(1) Converted to USD using the exchange rates provided in the FMCN annual filings. Average exchange rates were used for income statement items, and period-end exchange rates were used for balance sheet items

(2) Defined as income resulting from interest and foreign-currency translation adjustments

On February 22, 2010, FMCN signed the share purchase agreement to sell its stake back to Dentsu for $2.2 million.[103,104] The equity assignment agreement alludes to the reason for the transfer being that Hua Guang has a subsidiary that it may list on the Shanghai Stock Exchange, and that exchange rules would prohibit Hua Guang from simultaneously having a stake in &c.[105] We believe that the agreement is referring to Hua Guang subsidiary Shanghai Hua Guang Chuanzi OOH Ltd. ("OOH"), which appears to be on track for a Shanghai IPO.[106] (See *OOH*, *Insider…* for more information on OOH.)

By the end of 2009, cash and accounts receivable were worth $36.0 million. At the time they sold out, the book value of the joint venture was $25.0 million and revenue and net

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[103] Appendix G, Article 4.

[104] Transaction effective in December 2010 per the SAIC registration of the share transfer

[105] id., Article 7.1(3)

[106] http://doc.mbalib.com/view/1e64b197cd9b248c28696b5f7057b036.html

income for the year were $114.8 million and $8.87 million, respectively, making the transaction multiples 0.27x book value, 0.06x revenue, and 0.75x earnings—inappropriate no matter how you look at it. Given the tremendous growth, the business was conservatively worth $177.4 million, or 20.0x earnings, making FMCN's stake worth $59.1 million, or 26.6x what they received for it.

If Hua Guang's possible IPO is the reason for the bargain sale, it is yet more collateral damage from management's self-dealing. As we discussed infra, Hua Guang is management's latest trade on the other side of FMCN shareholders. In 2010, FMCN management purchased a 19% stake in Hua Guang for $13.3 million. A large investment bank loaned management at least part of the funds for the purchase. At the same time, the bank purchased 30% of Hua Guang. If enabling Hua Guang to IPO is the reason FMCN management agreed to such a low price, management figured out a way to throw shareholders under the bus twice on the same transaction.

Article 7.1(4) of the equity assignment contract is a bit unnerving, as it reads (Party B is the FMCN subsidiary that transferred the equity to Dentsu):

> Notwithstanding the three prior clauses [in Article 7.1], statements (including without limitation those Mr. Jiang Nanchun from Focus Media Holdings Ltd. made to the principal of Party A on November 27, 2009) as to why Party B is assigning the equity to Party A, whether oral or written, shall be guaranteed by Party B and Party B's representative.

It is unusual that the contract cites, without describing, statements by Mr. Jiang regarding the rationale for the transfer. Further, the contract seems to provide a guarantee that such statements are, or will be, true. It seems that there are some material terms that the parties did not want to include in the contract, which is concerning.

Regardless of the reason for FMCN's transfer of the equity to Dentsu for $2.2 million, FMCN shareholders once again got the short end of the stick.

XIII. OOH, Insider Self-Dealing Continues in 2011 With Even More Conflicts of Interest than Usual

This spring, insiders once again needed an incentive to do their job. Management decided to take a 19% stake in a traditional outdoor billboard subsidiary, Shanghai Hua Guang Chuanzhi OOH Co. Ltd. ("OOH"). OOH is expected to launch a public offering on the Shanghai Stock Exchange in 2012.[107] It may seem that insiders are less greedy than before, but unfortunately that is not the case. At the same time that insiders invested, a large investment bank (the "Investment Bank") subscribed to an additional 30% of the OOH. Further, the Investment Bank loaned insiders a significant portion

[107] http://doc.mbalib.com/view/1e64b197cd9b248c28696b5f7057b036.html

(possibly all) of the consideration for the insider portion. Our problems with this transaction are:

- Insiders have significant stock holdings in FMCN (see Appendix). Their job is to create value for FMCN – not to invest in crown jewel assets shortly prior to an exit. It is completely unjustifiable and abusive for insiders to (yet again) trade in FMCN assets. Just ask Mr. Andrew Fastow.
- Insiders have a significant conflict of interest evaluating the investment bank's bid when the bank is also lending them money for the purchase. This too is unnecessary and abusive.
- The disclosures about the transaction are quite vague – it is clear that insiders do not want to divulge much information on this transaction.

OOH, the Investment Bank, and Other Shenanigans

On March 7, 2011, FMCN entered into an equity transfer agreement to spin-out 49% of OOH to an entity controlled by the Investment Bank, and entities controlled by certain employees, directors and management members of FMCN (the "Management Entities"). The Investment Bank agreed to acquire a 30% equity interest in OOH for \$21.0 million, and the Management Entities received a 19% equity interest for \$13.3 million (OOH's implied valuation in this transaction is \$70.0 million).

Shockingly, the Management Entities could not be bothered to utilize their own cash for the transaction and financed the "purchase" with a line of credit from the Investment Bank. If the Investment Bank had enough conviction in the credit-worthiness of OOH to provide acquisition financing, Muddy Waters is curious why is it necessary for FMCN to set-up a second entity to unlock the shareholder value purportedly hidden in this "non-core business".

Despite announcing this agreement in March 2011[108] and then amending it on May 30, 2011,[109] FMCN has yet to publicly disclose the complete transaction terms or provide additional detail on who exactly benefits from the additional incentive compensation required for the Management Entities.

[108] FMCN 6-K dated 03/08/11

[109] FMCN 20-F dated 12/31/10, page 101

Summary OOH Spin-Off Terms		
$USD millions	% Ownership	Total
"The Investment Bank"	30.0%	$21.0
Management Entities	19.0%	$13.3
Spin-Off Entities	49.0%	$34.3
Focus Media exisiting position	51.0%	$35.7
Consolidated Valuation	100.0%	$70.0
OOH Revenue Multiple at Spin-Off Valuation, LTM 2Q11		1.5x
OOH Gross Profit Multiple at Spin-Off Valuation, LTM 2Q11		7.4x

The Investment Bank has several highly conflicted roles in its dealings with FMCN. First, The Investment Bank is buying an equity stake in OOH and gaining direct representation on the OOH Board of Directors, despite only having a minority economic interest. Second, The Investment Bank is providing significant financing to FMCN management to subsidize the cost of their supposed investment. Finally, the Investment Bank has provided significant private banking services to Mr. Jason Jiang, including serving as an underwriter on his secondary sales of shares and serving as a counter-party on his hedging transactions. Moreover, because of what Muddy Waters believes to be the intentional scarcity and opacity of FMCN's disclosures, it is impossible to independently verify the scope of this significant conflict of interest.

Dissembling

According to FMCN, this transaction will allow the company to recoup a majority of its investment in this business, while maintaining potential upside to the space.[110] According to media reports, FMCN management also claims that this transaction is necessary to prepare OOH for a complete spin-off and initial public offering.[111]

However, Muddy Waters can see no logical explanation for the three roles (including subsidizing management's acquisition) one bank is playing. Because FMCN Management is already adequately incentivized with their generous pay / options / equity schemes, there is no need to further incentivize them with direct exposure to OOH prior to the shareholders realizing any upside on the business. In summary, the OOH transaction is another example of FMCN management putting their own interests well ahead of those of FMCN shareholders.

XIV. FMCN's Corporate Governance Failings

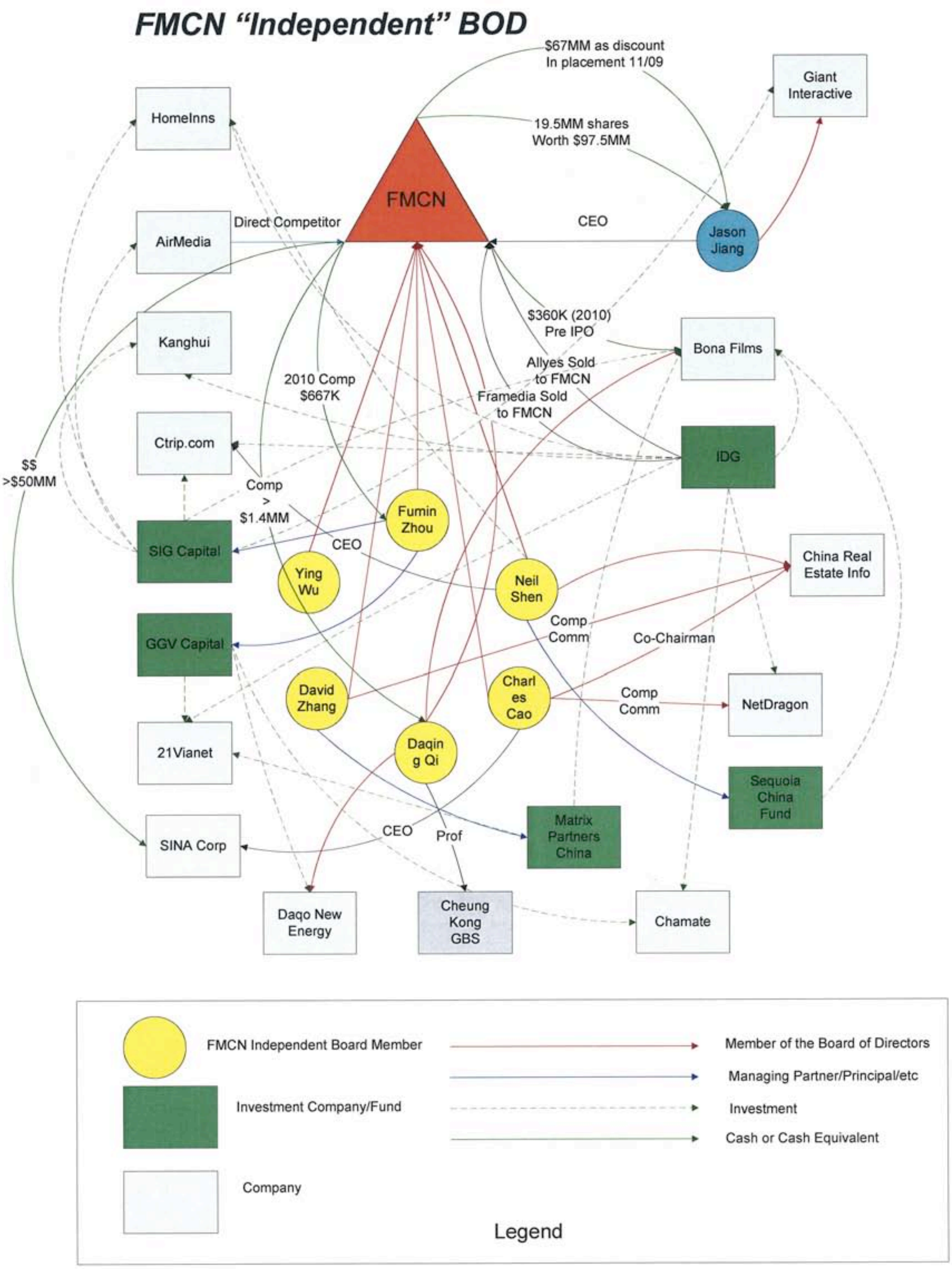
As should be clear from this report, FMCN's board is incapable of providing real corporate governance. One reason for the board's inability to do its job is its compensation. The other reason for this dysfunction is the web of business

[110] FMCN 6-K dated 03/08/11

[111] http://doc.mbalib.com/view/1e64b197cd9b248c28696b5f7057b036.html

relationships between insiders. Muddy Waters can already hear the refrain "But that's how business is done in China…" We remind investors that China is the second largest economy in the world and the most populous nation. FMCN really cannot find qualified directors with at least two degrees of separation?

The follow illustrates some of the relationships between insiders:



Jason Jiang and Friends – All Aboard the FMCN Money Train

Under the terms of basic corporate governance, the Board of Directors at a minimum owes public shareholders a duty of care and duty of loyalty. Board of Directors compensation is supposed to align their economic interests with those of shareholders and as a result their independence from Management is essential. Unfortunately, the compensation scheme for FMCN's Board of Directors is outsized and does not correspond to the interests of public shareholders. FMCN takes full advantage of the exemption provided to Foreign Private Issuers by the SEC and does not provide a detailed break out of individual director compensation. However, based on 144 filings, it is possible to gain some insight to the amount of shareholder dilution due to Board of Directors compensation.

The Curious Case of Professor Qi

Mr. Daqing Qi is a professor at Cheong Kong Graduate School of Business and also serves on the board of multiple publicly listed companies, including Bona Films (NASDAQ: BONA) and Daqo New Energy (NYSE: DQ). On March 25, 2011, Mr. Qi filed an SEC Form 144 for the sales of shares resulting from options granted barely three months earlier, on December 20, 2010. These options had a strike price of ZERO and Mr. Qi's total proceeds from the sale were approximately $1.4 million. This level of compensation far exceeds of standard annual independent director compensation. The independent directors at Exxon Mobil (NYSE: XOM), the world's largest and most profitable company in absolute dollar terms, were each compensated $272k in 2010. Considering the size and complexity of XOM relative to FMCN, it is almost laughable that an "independent" director is diluting public shareholders to this extent.

Unfortunately, the egregious level of Board of Directors compensation pales in comparison to equity grants to management. In 2008, 2009, and 2010, employee stock compensation was $42 million, $66 million, and $45 million, respectively. This level of equity compensation, for an apparently small number of employees, is shocking relative to the size of the company and the share price performance over the period. Until some real adults are in the room, it is difficult to believe these round-robin compensation practices will cease.

Appendix A

Historical Foreign Exchange Rates[1]							
	2004	2005	2006	2007	2008	2009	2010
Average	8.2768	8.1940	7.9579	7.5806	6.9193	6.8295	6.7603
Period-End	8.2765	8.0702	7.8041	7.2946	6.8225	6.8259	6.6000

(1) 2006 through 2010 foreign exchange rates taken from 2010 20-F filing.
2005 foreign exchange rates taken from 2005 20-F

Appendix B - Allyes Filings and Financials

Allyes Subsidiaries[1]

	% Owned by FMCN After Acquisition	Existed at Acquisition in 2007	No Chinese Name	Disposed of in 2009	Terminated / Dormant	Existed at Disposal in 2010	Note
Shanghai Quanshi	100	X				X	No SAIC financials
Shanghai Allyes	100	X				X	
Allyes Information Technology (Sh) Co., Ltd.	100	X					
Shanghai Huxin Advertising Co., Ltd.	100	X				X	
Shanghai Mei Si En Advertising Co., Ltd.	100	X				X	
Shanghai Kuantong Advertising Co., Ltd.	100	X				X	
Shanghai Hemisphere Allyes Marketing Consultancy Co.	51		X				
Beijing Lantian Interactive Advertising Co., Ltd.	100		X				
Shanghai Allyes Trends Advertising and Media Co. Ltd.	100					X	
Beijing Wonderad Advertisement Co., Ltd	70			X			
Beijing Kudong Media Advertising Co., Ltd.	70			X			
Shanghai Joywell Computer Information Technology Co.,	70		X				
Shanghai Jiangpan Advertising Co., Ltd.	70				X		No operation
Shanghai Netway Advertising Co., Ltd.	70		X				
Beijing Yong & Demon Advertising Co., Ltd.	80			X			
Beijing Yong & Demon Media Advertising Co., Ltd.	80			X			
Beijing Jiahuazhongwang Advertising Co., Ltd.	80		X				
Catch Stone Advertising (Beijing) Co., Ltd.	100			X			
Beijing Yibolande Advertisement Co., Ltd.	100		X				
Beijing iResearch Market Consulting Co., Ltd.	100		X				
Beijing Aike Information Consulting Co., Ltd.	100		X				
1024 Interactive Marketing Consultant (Beijing) Co., Ltd.	100			X			
Beijing Xingtuan Media Co., Ltd.	100		X				
Shanghai Focus Media Wangjing Advertising Co. Ltd.	100					X	
Shanghai iResearch Market Consulting Co., Ltd.	100					X	Not in SEC filings
Shenzhen Baifen Creation Advertisement Co., Ltd.	*(2)	X			X		
Beijing Quanshi Advertisement Co., Ltd.	100	X			X		Not in SEC filings
Shanghai Huxin Advertising Co., Ltd.	100					X	Not in SEC filings
Total		8	9	6	3	9	

(1) Data and figures obtained through SAIC filings
(2) Not available, ceased SAIC annual inspections beginning in 2006

Combined Financials of Allyes Subsidiaries[(1),(2),(3)]
(RMB¥ 000s)

	2005	2006	2007	2008	2009	2010
Revenues	480,841	592,765	933,266	1,308,184	1,492,586	1,811,806
Pre-tax profit	18,787	12,377	91,727	31,757	148,886	18,208
Net Income/(Loss)	17,036	9,007	83,428	25,817	130,868	15,522
Total Assets	354,732	385,202	631,260	940,375	1,082,281	873,763
Total Liabilities	180,556	218,562	379,085	566,651	838,487	822,121
Net Assets	174,176	166,140	252,175	373,724	243,794	51,642

(1a) None of the Quanshi financials from 2006 to 2010 are available
(1b) No Shenzhen Baifen financials are available since they have had no SAIC annual inspections since 2006
(1d) Beijing Quanshi reported no operations in 2009 and 2010
(1e) Wangjing did not report 2010 financials
(2) No elimination of inter group transactions
(3) Including New Allyes Info, Allyes Ad, Huxin (old), SH Quanshi, Beijing Quanshi, Shanghai MSN, Kuangtong, Huxin (new), SH iResearch, Wangjing, & Allyes Trends

Combined Financials of Allyes Subsidiaries[(1),(2),(3)] (USD$ 000s)[(4)]	2005	2006	2007	2008	2009	2010
Revenues	58,682	74,488	123,112	189,063	218,550	268,007
Pre-tax profit	2,293	1,555	12,100	4,590	21,800	2,693
Net Income/(Loss)	2,079	1,132	11,005	3,731	19,162	2,296
Total Assets	43,956	49,359	86,538	137,834	158,555	132,388
Total Liabilities	22,373	28,006	51,968	83,056	122,839	124,564
Net Assets	21,583	21,289	34,570	54,778	35,716	7,825

(1a) None of the Quanshi financials from 2006 to 2010 are available

(1b) No Shenzhen Baifen financials are available since they have had no SAIC annual inspections since 2006

(1d) Beijing Quanshi reported no operations in 2009 and 2010

(1e) Wangjing did not report 2010 financials

(2) No elimination of inter group transactions

(3) Including New Allyes Info, Allyes Ad, Huxin (old), SH Quanshi, Beijing Quanshi, Shanghai MSN, Kuangtong, Huxin (new), SH iResearch, Wangjing, & Allyes Trends

(4) Converted using the exchange rates provided in the FMCN annual filings. Average exchange rates were used for income statement items, and period-end exchange rates were used for balance sheet items

New Allyes Information Technology (Sh) Co., Ltd. (RMB¥ 000s)	2005	2006	2007	2008	2009	2010[(1)]
Revenues	10,961	32,480	127,844	46,689	159,515	NA
Pre-tax Profit	1,918	9,757	78,009	15,897	123,371	NA
Net Income/(Loss)	1,918	8,945	72,158	12,500	107,881	NA
Total Assets	143,007	154,699	335,607	530,008	388,930	NA
Total Liabilities	2,722	5,464	114,214	200,732	218,302	NA
Net Assets	140,285	149,235	221,393	329,276	170,628	NA
Registered Capital	RMB¥ 000s	138,631				

(1) 2010 figures not available

New Allyes Information Technology (Sh) Co., Ltd. (USD$ 000s)(1)						
	2005	2006	2007	2008	2009	2010(2)
Revenues	1,338	4,081	16,865	6,748	23,357	NA
Pre-tax Profit	234	1,226	10,291	2,297	18,064	NA
Net Income/(Loss)	234	1,124	9,519	1,807	15,796	NA
Total Assets	17,720	19,823	46,008	77,685	56,979	NA
Total Liabilities	337	700	15,657	29,422	31,981	NA
Net Assets	17,383	19,123	30,350	48,263	24,997	NA
Registered Capital	USD$ 000s	16,750				

(1) Converted using the exchange rates provided in the FMCN annual filings. Average exchange rates were used for income statement items, and period-end exchange rates were used for balance sheet items

(2) 2010 figures not available

Shanghai Allyes Trends Advertising and Media Co. Ltd. (RMB¥ 000s)						
	2005	2006	2007	2008	2009	2010
Revenues	NA	NA	0	150,523	321,928	NA
Pre-tax Profit	NA	NA	0	940	692	NA
Net Income/(Loss)	NA	NA	0	440	441	NA
Total Assets	NA	NA	1,000	10,165	167,506	NA
Total Liabilities	NA	NA	0	8,725	165,625	NA
Net Assets	NA	NA	1,000	1,440	1,881	NA
Registered Capital	RMB¥ 000s	1,000				

Shanghai Allyes Trends Advertising and Media Co. Ltd. (USD$ 000s)(1)						
	2005	2006	2007	2008	2009	2010
Revenues	NA	NA	0	21,754	47,138	NA
Pre-tax Profit	NA	NA	0	136	101	NA
Net Income/(Loss)	NA	NA	0	64	65	NA
Total Assets	NA	NA	137	1,490	24,540	NA
Total Liabilities	NA	NA	0	1,279	24,264	NA
Net Assets	NA	NA	137	211	276	NA
Registered Capital	USD$ 000s	122				

(1) Converted using the exchange rates provided in the FMCN annual filings. Average exchange rates were used for income statement items, and period-end exchange rates were used for balance sheet items

Shanghai Allyes Advertising Company, Limited (RMB¥ 000s)						
	2005	2006	2007	2008	2009	2010
Revenues	151,089	372,977	571,628	855,731	739,181	1,329,690
Pre-tax Profit	781	1,133	987	209	18,838	512
Net Income/(Loss)	(742)	(178)	553	41	18,028	(66)
Total Assets	93,507	126,748	166,117	273,825	292,456	543,681
Total Liabilities	74,793	108,211	147,028	254,693	255,296	542,247
Net Assets	18,714	18,537	19,089	19,132	37,160	1,434
Registered Capital	RMB¥ 000s	1,000				

Shanghai Allyes Advertising Company, Limited (USD$ 000s)[1]						
	2005	2006	2007	2008	2009	2010
Revenues	18,439	46,869	75,407	123,673	108,234	196,691
Pre-tax Profit	95	142	130	30	2,758	76
Net Income/(Loss)	(91)	(22)	73	6	2,640	(10)
Total Assets	11,587	16,241	22,773	40,136	42,845	82,376
Total Liabilities	9,268	13,866	20,156	37,331	37,401	82,159
Net Assets	2,319	2,375	2,617	2,804	5,444	217
Registered Capital	USD$ 000s	128				

(1) Converted using the exchange rates provided in the FMCN annual filings. Average exchange rates were used for income statement items, and period-end exchange rates were used for balance sheet items

(New) Shanghai Huxin Media Advertising Company, Ltd (RMB¥ 000s)						
	2005	2006	2007	2008	2009	2010
Revenues	NA	NA	NA	NA	76,593	368,942
Pre-tax Profit	NA	NA	NA	NA	569	2,390
Net Income/(Loss)	NA	NA	NA	NA	399	1,616
Total Assets	NA	NA	NA	NA	80,000	181,481
Total Liabilities	NA	NA	NA	NA	78,601	178,466
Net Assets	NA	NA	NA	NA	1,399	3,015
Registered Capital	RMB¥ 000s	500				

(New) Shanghai Huxin Media Advertising Company, Ltd (USD$ 000s)[(1)]	2005	2006	2007	2008	2009	2010
Revenues	NA	NA	NA	NA	11,215	54,575
Pre-tax Profit	NA	NA	NA	NA	83	354
Net Income/(Loss)	NA	NA	NA	NA	58	239
Total Assets	NA	NA	NA	NA	11,720	27,497
Total Liabilities	NA	NA	NA	NA	11,515	27,040
Net Assets	NA	NA	NA	NA	205	457
Registered Capital	USD$ 000s	64				

(1) Converted using the exchange rates provided in the FMCN annual filings. Average exchange rates were used for income statement items, and period-end exchange rates were used for balance sheet items

(Old) Shanghai Huxin Media Advertising Company, Ltd (RMB¥ 000s)	2005	2006	2007	2008	2009	2010
Revenues	32,149	101,436	159,838	194,871	124,435	21,623
Pre-tax Profit	3,686	210	1,420	1,820	(4,847)	5,344
Net Income/(Loss)	3,686	(308)	60	1,148	(4,940)	5,327
Total Assets	29,239	62,154	95,585	84,898	90,954	34,113
Total Liabilities	25,053	58,276	91,647	79,811	90,807	28,639
Net Assets	4,186	3,378	3,938	5,087	147	5,474
Registered Capital	RMB¥ 000s	500				

(Old) Shanghai Huxin Media Advertising Company, Ltd (USD$ 000s)[(1)]	2005	2006	2007	2008	2009	2010
Revenues	3,923	12,747	21,085	28,163	18,220	3,199
Pre-tax Profit	450	26	187	263	(710)	790
Net Income/(Loss)	450	(39)	8	166	(723)	788
Total Assets	3,623	7,964	13,104	12,444	13,325	5,169
Total Liabilities	3,104	7,467	12,564	11,698	13,303	4,339
Net Assets	519	433	540	746	22	829
Registered Capital	USD$ 000s	60				

(1) Converted using the exchange rates provided in the FMCN annual filings. Average exchange rates were used for income statement items, and period-end exchange rates were used for balance sheet items

Shanghai Quanshi Advertising Company Limited (RMB¥ 000s)	2005	2006	2007	2008	2009	2010
Revenues	17,627	NA	NA	NA	NA	NA
Pre-tax Profit	15,947	NA	NA	NA	NA	NA
Net Income/(Loss)	15,947	NA	NA	NA	NA	NA
Total Assets	18,122	NA	NA	NA	NA	NA
Total Liabilities	1,176	NA	NA	NA	NA	NA
Net Assets	16,946	NA	NA	NA	NA	NA
Registered Capital	RMB¥ 000s	1,000				

Shanghai Quanshi Advertising Company Limited (USD$ 000s)(1)	2005	2006	2007	2008	2009	2010
Revenues	2,151	NA	NA	NA	NA	NA
Pre-tax Profit	1,946	NA	NA	NA	NA	NA
Net Income/(Loss)	1,946	NA	NA	NA	NA	NA
Total Assets	2,277	NA	NA	NA	NA	NA
Total Liabilities	148	NA	NA	NA	NA	NA
Net Assets	2,129	NA	NA	NA	NA	NA
Registered Capital	USD$ 000s	122				

(1) Converted using the exchange rates provided in the FMCN annual filings. Average exchange rates were used for income statement items, and period-end exchange rates were used for balance sheet items

Beijing Quanshi Advertising Company Limited(1) (RMB¥ 000s)	2005	2006	2007	2008	2009	2010
Revenues	263,300	82,933	54,535	1,140	NA	NA
Pre-tax Profit	(5,410)	544	559	(1,799)	NA	NA
Net Income/(Loss)	(5,410)	(70)	66	(1,799)	NA	NA
Total Assets	68,690	38,435	12,317	1,693	NA	NA
Total Liabilities	75,931	45,745	19,561	10,736	NA	NA
Net Assets	(7,241)	(7,310)	(7,244)	(9,043)	NA	NA
Registered Capital	RMB¥ 000s	500				

(1) Entity was terminated in 2009: in December 2009, the shareholders made a resolution to terminate the entity, and it was legally terminated in February 2010

Beijing Quanshi Advertising Company Limited[1] (USD$ 000s)[2]						
	2005	2006	2007	2008	2009	2010
Revenues	32,133	10,421	7,194	165	NA	NA
Pre-tax Profit	(660)	68	74	(260)	NA	NA
Net Income/(Loss)	(660)	(9)	9	(260)	NA	NA
Total Assets	8,512	4,925	1,689	248	NA	NA
Total Liabilities	9,409	5,862	2,682	1,574	NA	NA
Net Assets	(897)	(937)	(993)	(1,325)	NA	NA
Registered Capital	USD$ 000s	61				

(1) Entity was terminated in 2009: in December 2009, the shareholders made a resolution to terminate the entity, and it was legally terminated in February 2010

(2) Converted using the exchange rates provided in the FMCN annual filings. Average exchange rates were used for income statement items, and period-end exchange rates were used for balance sheet items

Mei Si En Advertising Company Limited (RMB¥ 000s)						
	2005	2006	2007	2008	2009	2010
Revenues	0	0	0	0	0	0
Pre-tax Profit	0	6	3	1	1	0
Net Income/(Loss)	0	6	3	1	1	0
Total Assets	500	506	509	510	511	511
Total Liabilities	0	0	0	0	0	0
Net Assets	500	506	509	510	511	511
Registered Capital	RMB¥ 000s	500				

Mei Si En Advertising Company Limited (USD$ 000s)[1]						
	2005	2006	2007	2008	2009	2010
Revenues	0	0	0	0	0	0
Pre-tax Profit	0	1	0	0	0	0
Net Income/(Loss)	0	1	0	0	0	0
Total Assets	62	65	70	75	75	77
Total Liabilities	0	0	0	0	0	0
Net Assets	62	65	70	75	75	77
Registered Capital	USD$ 000s	62				

(1) Converted using the exchange rates provided in the FMCN annual filings. Average exchange rates were used for income statement items, and period-end exchange rates were used for balance sheet items

Shanghai Kuantong Advertising Company Limited (RMB¥ 000s)						
	2005	2006	2007	2008	2009	2010
Revenues	NA	84	15,712	29,423	35,407	59,871
Pre-tax Profit	NA	55	12,003	499	502	784
Net Income/(Loss)	NA	55	12,003	70	90	384
Total Assets	NA	1,168	14,251	20,075	36,127	83,842
Total Liabilities	NA	113	1,192	6,947	22,909	70,240
Net Assets	NA	1,055	13,059	13,128	13,218	13,602
Registered Capital	RMB¥ 000s	1,000				

Shanghai Kuantong Advertising Company Limited (USD$ 000s)(1)						
	2005	2006	2007	2008	2009	2010
Revenues	NA	11	2,073	4,252	5,184	8,856
Pre-tax Profit	NA	7	1,583	72	74	116
Net Income/(Loss)	NA	7	1,583	10	13	57
Total Assets	NA	150	1,954	2,942	5,293	12,703
Total Liabilities	NA	14	163	1,018	3,356	10,642
Net Assets	NA	135	1,790	1,924	1,936	2,061
Registered Capital	USD$ 000s	128				

(1) Converted using the exchange rates provided in the FMCN annual filings. Average exchange rates were used for income statement items, and period-end exchange rates were used for balance sheet items

Shanghai Focus Media Wangjing Advertising Co., Ltd. (RMB¥ 000s)						
	2005	2006	2007	2008	2009	2010
Revenues	NA	NA	0	0	4,732	NA
Pre-tax Profit	NA	NA	0	0	(758)	NA
Net Income/(Loss)	NA	NA	0	0	(758)	NA
Total Assets	NA	NA	1,004	1,056	5,429	NA
Total Liabilities	NA	NA	4	56	5,187	NA
Net Assets	NA	NA	1,000	1,000	242	NA
Registered Capital	RMB¥ 000s	1,000				

Shanghai Focus Media Wangjing Advertising Co., Ltd. (USD$ 000s)(1)

	2005	2006	2007	2008	2009	2010
Revenues	NA	NA	0	0	693	NA
Pre-tax Profit	NA	NA	0	0	(111)	NA
Net Income/(Loss)	NA	NA	0	0	(111)	NA
Total Assets	NA	NA	138	155	795	NA
Total Liabilities	NA	NA	1	8	760	NA
Net Assets	NA	NA	137	147	35	NA
Registered Capital	USD$ 000s	132				

(1) Converted using the exchange rates provided in the FMCN annual filings. Average exchange rates were used for income statement items, and period-end exchange rates were used for balance sheet items

Shanghai iResearch Market Consulting Company, Ltd. (RMB¥ 000s)

	2005	2006	2007	2008	2009	2010
Revenues	5,715	2,855	3,709	29,807	30,795	31,680
Pre-tax Profit	1,865	672	(1,254)	14,190	10,518	9,178
Net Income/(Loss)	1,637	557	(1,415)	13,416	9,726	8,261
Total Assets	1,667	1,492	4,870	18,145	20,368	30,135
Total Liabilities	881	753	5,439	4,951	1,760	2,529
Net Assets	786	739	(569)	13,194	18,608	27,606
Registered Capital	RMB¥ 000s	500				

Shanghai iResearch Market Consulting Company, Ltd. (USD$ 000s)(1)

	2005	2006	2007	2008	2009	2010
Revenues	697	359	489	4,308	4,509	4,686
Pre-tax Profit	228	84	(165)	2,051	1,540	1,358
Net Income/(Loss)	200	70	(187)	1,939	1,424	1,222
Total Assets	207	191	668	2,660	2,984	4,566
Total Liabilities	109	96	746	726	258	383
Net Assets	97	95	(78)	1,934	2,726	4,183
Registered Capital	USD$ 000s	60				

(1) Converted using the exchange rates provided in the FMCN annual filings. Average exchange rates were used for income statement items, and period-end exchange rates were used for balance sheet items

Internet Subsidiaries SAIC Financials (RMB¥ 000s)	2006	2007	2008	2009	2010
Wonder Ad					
Revenues	30,015	45,096	75,864	22,795	8,122
Net Income/(Loss)	20	(1,956)	(2,586)	(1,565)	(566)
Catchstone					
Revenues	90,192	NA	300,180	394,041	NA
Net Income/(Loss)	263	NA	2,233	10,327	NA
Wangmai					
Revenues	31,820	56,221	92,679	196,409	NA
Net Income/(Loss)	(3)	67	13	1	NA
Jiahua 1(1)					
Revenues	NA	17,280	88,861	99,448	123,460
Net Income/(Loss)	NA	540	427	873	915
Jiahua 2(1)					
Revenues	NA	30,789	5,764	-	-
Net Income/(Loss)	NA	80	36	(36)	(27)
Jiahua 1 & 2 Combined					
Revenues	NA	48,069	94,625	99,448	123,460
Net Income/(Loss)	NA	620	463	837	888
1024					
Revenues	NA	1,205	12,842	11,798	8,643
Net Income/(Loss)	NA	364	260	292	202

(1) The two Jiahua entities were transferred to FMCN by the same shareholder

Internet Subsidiaries SAIC Financials (USD$ 000s)[1]	2006	2007	2008	2009	2010
Wonder Ad					
Revenues	3,772	5,949	10,964	3,338	1,201
Net Income/(Loss)	3	(258)	(374)	(229)	(84)
Catchstone					
Revenues	11,334	NA	43,383	57,697	NA
Net Income/(Loss)	33	NA	323	1,512	NA
Wangmai					
Revenues	3,999	7,416	13,394	28,759	NA
Net Income/(Loss)	(0)	9	2	0	NA
Jiahua 1[2]					
Revenues	NA	2,280	12,842	14,562	18,263
Net Income/(Loss)	NA	71	62	128	135
Jiahua 2[2]					
Revenues	NA	4,062	833	-	-
Net Income/(Loss)	NA	11	5	(5)	(4)
Jiahua 1 & 2 Combined					
Revenues	NA	6,341	13,676	14,562	18,263
Net Income/(Loss)	NA	82	67	123	131
1024					
Revenues	NA	159	1,856	1,728	1,278
Net Income/(Loss)	NA	48	38	43	30

(1) Converted to USD using the average exchange rates provided in the FMCN annual filings

(2) The two Jiahua entities were transferred to FMCN by the same shareholder

Summary of Internet Disposals	Establishment Date[1]	FMCN Acquisition Date	Disposal Date	Proceeds Paid ($mm)[2]	Loss on Disposal ($mm)
Wonder Ad	Apr-03	Apr-07	Dec-09	14.9	14.9
Catchstone	Aug-02	Jun-07	Nov-09	14.5	11.6
Jiahua 1	Jan-07	Jun-07	Dec-09	7.7	7.7
Jiahua 2	Apr-00	Jun-07	Dec-09	7.7	7.7
1024	Feb-04	Jan-07	Dec-09	3.4	3.4
Wangmai	Feb-04	Jan-07	Dec-09	2.7	2.7

(1) Figures taken from each entity's SAIC filings

(2) Figures taken from FMCN 2010 20-F, pg. 72

Internet Subsidiary Ownership History[1]			
	Ownership before Acquisition by FMCN	Ownership after Acquisition by FMCN	Ownership after Disposal by FMCN
Wonder Ad			
Liu Yameng	85.0%	25.5%	95.5%
Hou Zhong	5.0%	1.5%	1.5%
Xia Qi	5.0%	1.5%	1.5%
Hong Yan	5.0%	1.5%	1.5%
FMCN	0.0%	70.0%	0.0%
Catchstone			
Lu Ning	5.0%	0.0%	0.0%
Hong Xia	95.0%	0.0%	30.0%
FMCN	0.0%	100.0%	0.0%
Shen Jie	0.0%	0.0%	70.0%
Jiahua 1 & 2			
Xing Biao	50.0%	10.0%	30.0%
Qiao Liang	50.0%	10.0%	30.0%
FMCN	0.0%	80.0%	0.0%
Wang Mengyuan[1]	0.0%	0.0%	40.0%
1024			
Xu Zengsheng	90.0%	0.0%	0.0%
Yuan Xiaohang	10.0%	0.0%	10.0%
FMCN	0.0%	100.0%	0.0%
Tong Zijing[1]	0.0%	0.0%	90.0%
Wangmai			
Zhu Peimin	51.0%	16.0%	51.0%
Chen Qian	49.0%	14.0%	49.0%
FMCN	0.0%	70.0%	0.0%

(1) Employees of FMCN who were not the original owners

Appendix D – Insider Transactions

Insider Transactions						
Purchaser/Seller	**Trade Date**	**Action**	**ADSs**	**Ordinary Shares**	**Price Per ADS**	**Implied Transaction Value**
Jason Jiang	**07/13/05**	**Sale**	**(1,281,006)**	**(12,810,059)**	**$17.00**	**$21,777,100**
Jimmy Yu	07/13/05	Sale	(365,330)	(3,653,297)	$17.00	$6,210,605
Neil Shen	07/13/05	Sale	(15,164)	(151,643)	$17.00	$257,793
Jason Jiang	**01/27/06**	**Sale**	**(1,000,003)**	**(10,000,030)**	**$43.50**	**$43,500,131**
Jimmy Yu	01/27/06	Sale	(385,961)	(3,859,610)	$43.50	$16,789,304
Neil Shen	01/27/06	Sale	(16,020)	(160,200)	$43.50	$696,870
Jason Jiang	**06/16/06**	**Sale**	**(1,016,748)**	**(10,167,482)**	**$54.00**	**$54,904,403**
Jimmy Yu	06/16/06	Sale	(903,432)	(9,034,317)	$54.00	$48,785,312
David Yu (Target Media)	09/19/06	Sale	(1,500,000)	(15,000,000)	$57.00	$85,500,000
Other Investors	09/19/06	Sale	(959,345)	(9,593,450)	$57.00	$54,682,665
Jason Jiang	**Sep. 2006**	**Sale[1]**	**(2,000,000)**	**(20,000,000)**	**$50.00**	**$100,000,000**
David Yu (Target Media)	01/26/07	Sale	(1,900,000)	(19,000,000)	$79.50	$151,050,000
Ex-Framedia Shareholders	01/26/07	Sale	(2,255,700)	(22,557,000)	$79.50	$179,328,150
Ex-Framedia Shareholders	11/07/07	Sale	(7,166,124)	(35,830,622)	$64.75	$464,006,555
Neil Shen (Stake from Allyes)	11/07/07	Sale	(10,363)	(51,815)	$64.75	$671,004
Dallsfield (CEO of Dotad)	11/07/07	Sale	(300,000)	(1,500,000)	$64.75	$19,425,000
Techware (38% owned by Xiong)	11/07/07	Sale	(64,172)	(320,860)	$64.75	$4,155,137
Aura (100% owned by Xiong)	11/07/07	Sale	(56,281)	(281,405)	$64.75	$3,644,195
Premacy (31.8% owned by Xiong)	11/07/07	Sale	(42,657)	(213,285)	$64.75	$2,762,041
Other Investors	11/07/07	Sale	(6,081,276)	(30,406,378)	$64.75	$393,762,595
Jason Jiang	**03/20/08**	**Purchase**	**100,000**	**500,000**	**$34.14**	**($3,414,000)**
Jason Jiang	**09/23/09**	**Purchase[2]**	**15,000,000**	**75,000,000**	**$9.50**	**($142,425,000)**
Jason Jiang	**09/07/10**	**Sale[3]**	**(8,100,000)**	**(40,500,000)**	**$18.90**	**$153,090,000**
Net Proceeds from Insider Sales						**$1,659,159,859**

Notes:

1 Effectively sold shares through a pre-paid variable forward contract with Credit Suisse. Price undisclosed, estimated

2 Entered into a subscription agreement with FMCN, financed with a loan from Citi

3 Placed 5.3mm ADSs through Goldman Sachs and sold another 2.8mm to GS as consideration for a capped call transaction. Consideration from the first 5.3mm ADSs was used to repay the loan from Citi

Appendix E – Goodwill Write-downs

Total Goodwill Writedowns						
	2005	2006	2007	2008	2009	2010
Impairment	$0	$0	$0	$596,069,011	$87,608,201	$5,736,134
Disposal of Subsidiaries	$0	$0	$0	$189,713,146	$18,867,217	$4,272,498
Total Write-downs	$0	$0	$0	$785,782,157	$106,475,418	$10,008,632
Cumulative Write-downs	$0	$0	$0	$785,782,157	$892,257,575	$902,266,207

Appendix F – Dentsu Joint Venture

Equity Assignment Contract

February 22, 2010

Hua Kuang Advertising Company,. Ltd, Hong Kong, China
Dentsu Inc., Japan

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General

Dentsu Inc., Japan (hereinafter referred to as “Party A”), and Hua Kuang Advertising Company,. Ltd, Hong Kong, China (hereinafter referred to as “Party B”) established a joint venture, “&c. Digital (Beijing) Advertising Co., Ltd”, on May 22, 2008.

The Parties herein reached an agreement that Party B intended to assign all equities to Party A, and entered into the Equity Assignment Contract (hereinafter referred to as “Contract”) on Feb 22, 2010 by law in China.

Article 1 (Definitions)

Definitions in the Contract are set out below:

(一) “Original Company” means “&c. Digital (Beijing) Advertisement Co., Ltd” established and operated by the Parties herein;

(二) “Joint Venture Contract” and “Statute” means the joint venture contract and statutes signed by the Parties for the Original Company on December 28 2007;

(三) “Approval Authority” or “Original Approval Authority” means the approval authorities which have right specified under current decrees, of establishment and termination of the Joint Venture;

(四) “Equity” means all equities of the Original Company (the contribution is 33%) Party B holds and Party A intends to buy according to the Contract, the Joint Venture Contract, Statute and relevant laws and regulations in China;

(五) “New Company” means the subsidiary, “&c. Digital (Beijing) Advertising Co., Ltd”, wholly established by Party A after the Equity is assigned;

(六) “Effective Date” means the date when the Contract comes into effect and the Approval Authority approved the Contract; and

(七) "Affiliated Company" means a company or other entity directly or indirectly controlling the alternative of the Parties herein, or controlled by either Party, or controlled indirectly by either Party; "Control" means above 50% of registered capital of the Affiliated Company or other organizations either Party holds or the authority that the Party has right to appoint General Manager or other principles of the Affiliated Company or organizations.

Article 2 (Parties to the Contract)

Parties in the Contract are as follows:

Party A: Dentsu Inc.

Country of Registration: Japan

Legal Address: No 1, Block 8, Chome 1, Higashi-shimbashi,
Minato-ku, Tokyo

Legal Representative:

Name: 高岛 达佳

Title: President and General Manager of Dentsu Inc.

Nationality: Japan

Party B: Hua Kuang Advertising Company,. Ltd

Country of Registration: Hong Kong, China

Legal Address: Flat A, 26/F, Oak Mansion, Elarbour View
GardensNo.20, Taikou Wan Road,
Tai Koo Shing, Hong Kong

Legal Representative:

Name: Zhang Yonghan

Title: Chief Executive Officer

Nationality: Hong Kong, China

Article 3 (Assignment of Equity)

Party B shall assign to Party A the whole equity which Party A shall buy from Party B (hereinafter referred to as "Assignment of Equity") in accordance with conditions stated in the Contract.

Article 4 (Price of Assignment)

The Price of Assignment of Equity is US 2.22 million dollars.

Article 5 (Period of Consideration and the Payment Procedure)

(1) Party A shall pay the Price of Assignment stated in the Article 4 to Party B within 14 working days since the Original Company received the new license (hereinafter referred to as "Execution Date");

(2) Party A shall pay the Price of Assignment stated in Article 4 in the manner of remitting to the bank account specified by Party B in US dollars;

(3) Party B shall promptly return the certificate of capital contribution to the Original Company. Party A and Party B shall enable the Joint Venture to issue the certificate of capital contribution to Party A after the payment specified in Article 5 is completed.

Article 6 (Terms of Consideration)

If there is one term below not to be satisfied, Party A may not perform the obligation of consideration specified in Article 5 despite terms defined in Article 5.

(1) The Assignment of Equity on which the highest authorities of Party A and Party B have reached an agreement;

(2) The Assignment of Equity may not go against relevant decrees in China and Japan and has been approved by relevant authorities;

(3) Party A, Party B and Focus Media Holding Limited have reached a new written agreement on terms relating to maintaining relationships and cooperation in the Internet advertisement market.

Article 7 (Declaration and Guarantee)

1. Party B makes the following declaration and promise to Party A: the declaration and promise made by Party A and Party B in Article 7 are irreplaceable. If the declaration and promise owning to the lack of accuracy or completeness bring losses to Party A, Party B shall remedy all losses. Moreover, Party A may promptly terminate the

Contract as soon as Party A confirms the untruth of the declaration and promise or that Party B acts against the declaration and promise;

(1) Up until the date the Contract is signed, Party B holds the equity by itself in essence, does not assign the equity to the third party and has full and complete right of conducting the Assignment of Equity, and the wholly complete and effective rights on the equity, which are not attached with limitations, pledge, priority, lien and other various rights, option, prior subscription right, prior negotiation right or any kind of the Third Party's rights or interests and claim or objection on any right Party B have as the Third Party has not and never proposed in terms of the equity;

(2) Party B has authority and capacity as required to sign the Contract and to perform the obligations under the Contract;

(3) If Party B may not assign all equities to Party A under the Contract, subsidiaries Party B owns will not be listed in Shanghai Stock Exchange because Party B disobeys its regulations;

(4) Except the said three terms, as the reason and background that Party B assigns the equity to Party A, the statements (including but not limited to those Mr. Jiang Nanchun from Focus Media Holding Limited made to the principle of Party A on November 27 2009), whichever is given in written or oral form, shall be guaranteed real by Party B and the representative on behalf of Party B.

2. Party A will issue the following statement and promise on the date when the Contract is signed:

(1) Party A was established effectively according to Japanese laws and exists effectively and legally and has authority and capacity as required to sign the Contract and perform the obligations under the Contract;

(2) Party A has completed all procedures as required by decrees, internal regulations and etc in terms of signing the Contract and performing obligations under the Contract.

Article 8 (Party B' s Promises)

1. Party B may not hire and employ the employees who resign from the Original Company or the New Company after the Contract is signed within 3 years since their demission;

2. Party B may only develop its interactive advisement business through Allyes Online Media Holdings Limited (hereinafter referred to as "Allyes Company") in China within 3 years since the Contract comes into effect; and Party B may neither

directly nor indirectly invest companies which take the interactive advisement business as their key business in China (including Hong Kong, Macau and Taiwan);

3. Party B may not enable Allyes Company to undertake the business from clients of the New Company, excluding those who recruit in a widespread and open way and confirm the agent by competition prior to negotiate with the New Company for a satisfactory settlement. In addition, Party B and its subsidiaries, the Affiliated Companies and Allyes Company may negotiate with the New Company in advance to confirm the scope of its clients in case of not ascertaining it. Satisfactory settlements shall be made by negotiation in case of conflicts with the New Company in the Internet advertisement market and relevant markets;

4. Party B shall provide necessary assistance and cooperation on approval procedures on the Assignment of Equity and essential changes of the business license, including but not limited to essential documents Party B shall submit as required in the said procedures (including but not limited to documents related to recalling the director of the Original Company Party B appointed).

Article 9 (Effectiveness)

The Contract comes into effect on the date when the Contract is approved by the Approval Authority of the Original Company.

Article 10 (Termination of the Contract)

Each party in breach of the Contract, despite that the other Party demands correction, does not correct the breach yet within 30 days since receiving the exigent. The other Party may give a notice of termination to terminate the Contract. In addition, the other Party may not terminate the Contract but investigate the liability of the Party in breach of the Contract when the breach occurs.

Article 11 (Breach Responsibilities)

1.

(1) Party A shall calculate the default interest in according with 10% of an annual interest in case that it may not pay the Consideration of the Assignment of Equity in terms of amount and period under the Article 4 and Section 1 of the Article 5;

(2) In the case stated in Section (1), the observant Party shall demand the Party in breach of the Contract to complete the payment. If the Party in breach does not complete the payment within 3 months after the exigent is issued, the observant Party has right to apply for terminating the Contract and the Joint Venture Contract and dissolving the Original Company to the Original Approval Authority without prejudice to right of claim for the default interest specified in the said Section (1);

2. If misfeasance or breach of each Party enables the Contract entirely or partially not to be carried out, the Party shall undertake the breach responsibility. In addition, the misfeasance or breach stated in Article 7 should be dealt with under Article 7.

Article 12 (Force Majeure)

When earthquake, typhoons, flood, fire, war and other unforeseen and irresistible factors bring direct influence against performance of the Contract or enable the Contract not to be carried out according to promissory terms, the Party who encounters the said situation shall promptly notify the other Party of the event and submit the effective certificates that specify the event and the reasons why the Contract may not be carried out entirely or partially or delayed within 30 days since the event occurs. Party A and Party B shall act to negotiate on whether terminating the Contract, exempting partial responsibility to perform the Contract or extending the period of performance of the Contract according to influence on the performance of the Contract within 6 months since the event occurs.

Article 13 (Disclosure and Confidentiality)

1. The fact and content that the Contract is signed may not be disclosed unless Parties herein have reached an agreement on the disclosure date and content by negotiation in advance;
2. The Parties herein may not betray, disclose or issue the fact that the Contract is entered into, the content of the Contract and the confidential information specified by the other Party to the Third Party without prior consent of the other Party. However, the following information is not included:

(1) The information is already well-known before the other Party discloses it or the information becomes well-known not because the other Party discloses it;

(2) The information has been already owned by the other Party when Party A or Party B discloses it;

(3) The information Parties herein retain from the Third Party legitimately and do not need to undertake the confidential obligation;

(4) The information has to be disclosed by law, rules, and orders from governments and courts.

In addition, the Third Party in Article 13 does not include the Approval Authority in the Contract.

Article 14 (Taxation)

Party A and Party B shall pay the taxation for the Assignment of Equity by law respectively.

Article 15 (Changes)

The terms specified in the Contract may not be changed unless the written agreement is reached by the Parties herein.

Article 16 (Notice)

1. The contact persons the Parties appoint to sign and perform the Contract and contact approaches are shown below:

   Party A:
   Dentsu Inc.
   Correspondence Address: No 1, Block 8, Chome 1, Higashi-shimbashi, Minato-ku, Tokyo, Japan
   Zip Code: 1580094
   Fax: 03-6217-5538
   Consignee: 华腾和也

   Party B:
   Hua Kuang Advertising Company,. Ltd
   Correspondence Address: 28-30/F, Zhao Feng World Trade Building
   369 JiangSu Road, Shanghai, PRC.
   Zip Code: 200050
   Fax: 86-21-5240-0228
   Consignee: [illegible]海荣 , Focus Media Holding Limited

2. Each Party shall give a written notice to the other Party within 48 hours after changing the above address, contact approach and consignee. The notice, which is sent according to the above address, contact approach and consignee ahead of a change notice and received within the time below, is deemed to be delivered. If the notice is delivered by hand, the time the consignee confirms as the notice is received is the delivery time; if the notice is delivered by registered post, the delivery time is 9:00 a.m. on the fifth working day after post; if the notice is faxed, the delivery time is 9:00 a.m. next day.

Article 17 (Severability)

Even though any term or any other provision in the Contract is either void because of breach in law or public order or may not be carried out because of infraction of law, other terms and provisions in the Contract remain valid as long as the transaction intended to be conducted under the Contract does not bring any adverse effect against any Party herein economically or legally in essence. Whereas any term or any other provision in the Contract is determined to be void, infraction of law or not be performed, Parties herein shall make sincere negotiation so that the transaction intended to be conducted under the Contract may be carried out to the fullest extent possible and shall alter the Contract in order that the original intention of each party herein may be realized in the manner similar to it by using allowable methods.

Article 18 (Applicable Law and Arbitration)

1. The Contract is governed and interpreted by law in China.

2. All disputes arising or relating to the Contract owning to performance of the Contract shall be resolved through friendly consultations by the Parties. Disputes which are not resolved through consultations shall be settled by arbitration in accordance to the arbitral procedure of Japan Commercial Arbitration Association in Tokyo, Japan. Arbitration awards are final and shall bind the Parties. All costs of arbitration (including a reasonable retaining fee) shall be borne by the losing party.

3. When any dispute occurs and is the subject of friendly consultations or arbitration, the Parties shall continue to undertake respective responsibilities and fulfill their remaining respective obligations under the Contract.

The Contract shall be written both in the Chinese language and in the Japanese language in 5 originals on the date first set forth above in the Contract, one for each party and the rest submitted to the Approval Authority after legal representatives or authorized representatives on behalf of the Parties herein sign the Contract.

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Party A: Dentsu Inc.

By

Legal representative or authorized representative

Party B: Hua Kuang Advertising Company,. Ltd

By

Legal representative or authorized representative

February 22, 2010

Appendix H – Mobile Acquisitions

21

股权转让合同

2010年2月22

中华人民共和国香港　华光广告有限公司

日　本　国　株式会社电通

目录

总则

日本国法人株式会社电通（以下称“甲方”）及中国香港法人华光广告有限公司（以下称“乙方”）于 2008 年 5 月 22 日共同出资设立了外商合资企业“电众数码（北京）广告有限公司”。

甲方及乙方就乙方将其在“电众数码（北京）广告有限公司”的全部股权转让给甲方事宜达成一致，故依照中国的相关法律规定，于 2010 年 2 月 22 日签订本股权转让合同（以下称“本合同”）。

第1条 （定义）

本合同用语的定义如下：

（1） “原公司”系指由甲乙共同出资经营的“电众数码（北京）广告有限公司”；

（2） “合资合同”、“章程”系指由甲方及乙方于 2007 年 12 月 28 日签订的原公司的合资合同、章程；

（3） “审批机关”或“原审批机关”系指有效的法令所规定的、就合资公司的设立、解散拥有审批权限的审批机关；

（4） “本股权”系指依照本合同、合资合同、章程以及中国的相关法律及规章甲方拟认购的、乙方持有的原公司的全部股权（出资比例为 33%）；

（5） “新公司”系指经本股权的转让，甲方全资出资的子公司“电众数码（北京）广告有限公司”；

（6） “生效日”系指本合同的生效日，即本合同经审批机关批准之日；

（7） “关联公司”系指直接或间接地控制本合同任一当事人或被该当事人所控制或与该当事人同被控制的企业或其他实体；“控制”系指持有企业或其他组织的 50%以上的注册资本或者拥有任命企业或其他组织的总经理或其他主要负责人的权限。

第2条 （本合同当事人）

本合同当事人如下：

甲方： 株式会社电通

注册国：日本国

法定地址：日本国东京都港区东新桥一丁目8番1号

法定代表人： 姓名 高岛 达佳

职务 代表取缔役社长

国籍 日本国

乙方： 华光广告有限公司

注册国：中国香港

法定地址： Flat A. 26/F., Oak Mansion, Harbour View Gardens No.20, Taikoo Wan Road, Tai Koo Shing, Hong Kong

法定代表人： 姓名 张永汉

职务 Chief Executive Officer

国籍 中国香港

第3条 （股权的转让）

依照本合同规定的条件，乙方应将本股权全部转让给甲方，甲方应从乙方认购该股权（以下称"本股权转让"）。

第4条 （转让价格）

本股权转让价格为222万美元。

第5条 （对价的支付期限及支付方法）

1. 甲方自原公司领取新营业执照之日（以下称"实施日"）起14个工作日内，将第4条规定的转让价格支付给乙方。

2. 甲方应以美元通过向乙方指定的银行账户汇款的方式支付第4条规定的转让价格。

3. 本条规定的支付完成后，乙方应迅速将出资证明返还给原公司。且，本条规定的支付完成后，甲方及乙方应促合资公司立即向甲方出具出资证明。

第6条 （对价的支付条件）

尽管有第5条的规定，在实施日之前，下列条件中即使有一条未得到满足，甲方也不负第5条规定的转让对价的支付义务：

（1） 有关本股权转让，甲乙各自的最高权力机构均已同意；

（2） 本股权转让不可能抵触相关各国的法令，并获得各相关机关的批准；

（3） 甲方、乙方及分众传媒控股有限公司已就与包括在互联网广告市场相互进行业务合作在内的维持关系有关的条款，另行达成了书面协议。

第7条 （声明及保证）

1. 乙方向甲方声明并保证如下。本条项下的甲方及乙方的声明及保证是不可撤销的。因本款的声明保证缺乏正确性或完整性而给甲方带来损害时，乙方须补全部该损害。另，明确了本款的声明、保证不真实或违反了声明、保证时，甲方可立即解除本合同：

（1） 截至本合同签订日，乙方单独并实质上持有本股权，未将本股权转让给第三方，且，拥有可实施本股权转让的充分且完整的权利；有关本股权拥有全部完整并有效的权利，该权利不附任何限制、质权、优先权、抵押权及其他任何种类的担保权、选择权、优先认购权、优先交涉权或其他任何种类的第三方权利或利益；以及乙方未曾被第三方也不可能被第三方就本股权提出拥有任何权利的索赔或异议；

(2) 乙方拥有签订本合同及根据本合同履行义务所需的权限及能力；

(3) 若乙方未根据本合同向甲方转让全部本股权，则因与上海证券交易所的规定相抵触，乙方拥有的其他子公司将无法在上海证券交易所上市；

(4) 除上述（3）款外，作为乙方将本股权转让给甲方的理由及背景，无论口头还是书面，乙方及经乙方委托的代表人向甲方进行的说明（包括但不限于 2009 年 11 月 27 日 Focus Media Holding Limited 江南春先生向甲方负责人进行的说明）均真实。

2. 甲方于本合同签订日向乙方声明及保证如下：

(1) 甲方是根据日本法合法有效设立、合法有效存续的株式会社，拥有签订本合同及根据本合同履行义务所需的权限及能力；

(2) 甲方已就本合同的签订及本合同项下义务的履行，履行了法令及各自的内部规章等所需的全部手续。

第8条 （乙方的承诺）

1. 本合同签订日以后的原公司或新公司的职工从原公司或新公司离职后，自离职之时起 3 年内，乙方不雇用且不使相关公司雇用该原职工。

2. 本合同生效日以后 3 年内，乙方应仅通过 Allyes Online Media Holdings Limited（以下称 "Allyes 公司"）在中国开展互动广告业务；在中国国内（包括香港、澳门及台湾），无论直接还是间接，均不向主营业务为互动广告业务的公司出资。

3. 乙方不得使 Allyes 公司承办新公司的客户的业务。但是新公司的客户广泛公开招募通过竞争选定代理店的，不在此限。但，应事先与新公司协商圆满解决。另，乙方及其下属子公司、关联公司及 Allyes 公司不能确认新公司的客户的范畴的，事先与新公司进行协商确认。如在互联网广告及相关市场上与新公司发生冲突，应经协商圆满解决。

4. 乙方应对有关本股权转让的审批手续及必要的工商变更手续提供必要的协助及

合作，包括但不限于提供上述手续中乙方应提交的必要文件（包括但不限于与乙方任命的原公司董事的罢免有关的文件）。

第9条 （本合同的生效）

本合同自获得原公司的审批机关批准之日起生效。

第10条 （合同的解除）

任一当事人违反本合同，虽经对方催告违约方纠正该违反，但在收到该催告后 30 日内违约方仍未纠正该违反时，对方当事人可向违约方发送解除通知，解除本合同。另，对方当事人在发生解除事由时，亦可不解除本合同，而是根据本合同向违约方追究违约责任。

第11条 （违约责任）

1.

(1) 甲方未依照第 4 条及第 5 条 1 款规定的金额及期限支付股权转让对价时，应就未支付金额以按 10%的年利率计算出的金额支付罚息。

(2) 在上述（1）项的情况下，守约方应催告违约方完成支付。违约方在该催告后 3 个月内未完成支付时，在不损害上述（1）项规定的罚息请求权的基础上，守约方有权向原审批机关申请解除本合同、合资合同及解散原公司。

2. 因任一当事人的过失或违约致使本合同的全部或部分无法履行时，该过失或违约的当事人应承担违约责任。但，属于第 7 条的情况时，应依照第 7 条处理。

第12条 （不可抗力）

因地震、台风、水灾、火灾、战争以及其他不能预见且对其发生及结果不能避免的不可抗力事故，对本合同的履行产生直接影响或不能按约定的条件履行时，遭遇上述不可抗力事故的当事人应立即将该事故的情况通知给对方当事人，并在该事故发生后 30 日内提交记载该事故的详细情况及本合同的全部或部分不能履行或需要迟

延履行的理由的有效证明文件。甲方及乙方应在该事故发生后 6 个月内，根据该事故对本合同履行的影响程度，就是否解除本合同、或是否部分免除履行本合同的责任或是否延长履行本合同的期限进行协商。

第13条 （公布、保密）

1. 非经本合同全体当事人之间事先就公布的时期及内容进行协商达成一致，不得对签订本合同的事实及其内容进行公布。

2. 事先未经对方当事人的书面同意，本合同的全体当事人均不得向第三方泄漏、披露或发表签订本合同的事实及本合同的内容以及从其他方当事人接受的被指定为机密的信息。但，属于下列各项之一的信息不在此限：

   （1） 被对方当事人披露时已为众所周知的信息，或披露后非因接受信息的当事人的责任而为众所周知的信息；

   （2） 甲方或乙方披露时已为对方当事人所拥有的信息；

   （3） 无需承担保密义务而从第三方正当获取的信息；

   （4） 因法律、法规、政府及法院等的命令等而必须披露的信息。

另，本条中所称第三方不包括本合同的审批机关。

第14条 （税款）

甲方及乙方应分别承担因本股权转让依法应承担的税款。

第15条 （本合同的变更）

非经本合同全体当事人的书面协议，不能对本合同规定的事项进行变更。

第16条 （通知）

1. 双方就本合同的签订及履行指定联系人及联系方法如下：

   甲方：

株式会社电通
通信地址：日本国东京都港区东新桥一丁目 8 番 1 号
邮政编码：158-0094
传真号码：03-6217-5530
收件人：峯岸和也

乙方：
华光广告有限公司
通信地址：28-30/F, Zhao Feng World Trade Building 369
Jiang Su Road, Shanghai, P.R.C.
邮政编码：200050
传真号码：021-5240-0228
收件人：Focus Media Holding Limited 谭海荣

2. 任一当事人变更前款的通知地址、联系方法、指定联系人时，应于变更后 48 小时内书面通知其他当事人。未收到变更通知时，向前款的联系地址、联系方法、指定联系人发送的通知在下述确定的时间视为已送达。通知经专人递交送达的，通知接收人经确认通知后接收时为送达时间；以挂号邮寄送达的，邮寄后第 5 个工作日的上午 9 点为送达时间；以传真送达的，发送传真的次日上午 9 点为送达时间。

第17条 （可分离性）

即使本合同的任一条件或其他规定因违反法律或公共秩序而无效、违法或不能履行，只要本合同拟进行的交易在经济上或法律实质上未给本合同的任一当事人带来不利影响，本合同的其他条件及规定仍继续有效。任一条件或其他规定被认定无效、违法或不能履行时，本合同当事人应本着诚意进行交涉，为使本合同拟进行的交易尽可能地得以实施，应修改本合同以期尽可能地使各方当事人最初的意图可通过与其接近的形式中可被允许的方法得以实现。

第18条 （准据法及仲裁）

1. 本合同以中国法为准据法，依照中国法解释。

2. 因本合同的履行所发生的、或与本合同有关的全部纠纷，应通过各方当事人之间的友好协商加以解决。通过协商亦不能解决的，应在日本国东京依照日本商事仲裁协会的仲裁程序规则进行仲裁，仲裁的裁决是终局的，约束当事人。仲裁的费用（亦包括合理的律师费用）由败诉方承担。

3. 在发生纠纷期间及协商、仲裁期间，甲方及乙方中任何一方均应继续履行本合同规定的各自应承担的责任及义务。

作为本合同签订之证明，于文首记载之日以中文及日文写成本合同 5 份，由甲乙的法定代表人或授权代表签章后，各执各文本 1 份，其余用于提交审批机关。

（本页无正文）

甲方：株式会社电通

法定代表人或授权代表签字

乙方：华光广告有限公司

法定代表人或授权代表签字

2010年2月22日

Appendix H – Zong Heng Pin Yu (Boat)

PEOPLE'S COURT OF SHANGHAI NO.1 INTERMEDIATE PEOPLE'S COURT
CIVIL JUDGMENT

(2008) Hu Yi Zhong Min San (Shang) Zhong Zi No. 517

Appellant: (Defendant in the first instance)	Shanghai Zongheng Pinyu Advertisement Co., Ltd
Appellee: (Plaintiff in the first instance)	Shanghai Xiangxieli Advertisement Co., Ltd,

As for a case regarding operation right transfer contract dispute, the Appellant, Shanghai Zongheng Pinyu Advertisement Co., Ltd (hereinafter referred to as "Zongheng"), was dissatisfied with the civil judgment (2008) Xu Min Er (Shang) Chu Zi No.1587 rendered by Shanghai Xuhui District People's Court and filed an appeal with this court. After this court accepted this case on November 4, 2008, a collegiate court has been lawfully established. An open hearing was conducted on November 19, 2008. Mao Jie, the attorney entrusted by the Appellant Zongheng, and Shi Quanhong, the attorney entrusted by the Appellee Shanghai Xiangxieli Advertisement Co., Ltd (hereinafter referred to as "Xiangxieli") attended the litigation. The case now has been decided.

The court of first instance found that there is an Authorization Agreement on Exclusive Operation of Advertisement on Led Advertisement Vessels and Share Buyout Agreement concluded between Zongheng and Xiangxieli on July 22, 2007, with main content as follows: Zongheng grants Xiangxieli with the exclusive right to operate the advertisement business in the Shanghai Huangpu River Project (on-water Led advertisement vessels) and an agreement on the share buyout matters in the next year; within three working days after conclusion and effectiveness of the agreement, Xiangxieli should pay a deposit in the amount of RMB 1 million to Zongheng; August 11, 2007 should be the formal starting date for rental, and within three working days prior to the official starting date for rental, Xiangxieli should pay to Zongheng the advertisement operation transfer fee for the first quarter in the amount of RMB 1.5 million, the advertisement operation transfer fee for each quarter afterwards should be paid within first three working days of each quarter respectively; Zongheng should issue the formal advertisement operation invoice before payment by Xiangxieli; the authorization period for advertisement operation right should be July 23, 2007 until August 11, 2008; if there is any overdue payment by Xiangxieli, 3‰ of arrears should be charged for each overdue date as the late fee apart from the due payment; if Xiangxieli delays payment for 25 days, Zongheng shall be entitled to terminate the contract and the deposit in the amount of RMB 1 million shall not be refunded. After completion of the authorization period, Xiangxieli undertakes to buy out 90% of the shares of Zongheng at the price of RMB 25 million, a separate agreement will be concluded by both parties for detailed buyout matters; the deposit in the amount of RMB 1 million will be used as the deposit for the contract regarding share buyout after completion of the authorization period. After conclusion of the above agreement, Xiangxieli paid RMB 1 million for the deposit on August 1, 2007, RMB 500,000 for the advertisement operation transfer fee on September 7 of the same year, RMB 500,000 for the advertisement operation transfer fee on September 19 of the same year; RMB 300,000 for the advertisement operation transfer fee on October 23 of the same year. On November 2, 2007, the shareholder of Zongheng concluded a Share Transfer Agreement with an outsider of this case. On November 26, 2007, Zongheng filed a lawsuit, requesting to terminate the contract at issue, demanding payment for advertisement operation transfer fee and late fee. Xiangxieli filed a counterclaim, requesting continuous performance of the contract and demanding payment of liquidated damage for breach. After the trial, Shanghai Xuhui District People's Court was of the opinion that the Authorization Agreement on Exclusive Operation of Advertisement on Led Advertisement Vessels and Share Buyout Agreement concluded between both parties was legal and valid. During the contract performance procedure, Xiangxieli had delayed the payment for deposit and advertisement operation transfer fee, which constituted a fundamental breach of the contract. Zongheng's non-delivery of invoices merely constituted an ordinary breach. Based on that, the civil judgment (2007) Xu Min Er (Shang) Chu Zi No.2254 was issued on February 22, 2008, which supported Zongheng's litigation requests but dismissed Xiangxieli's counterclaim requests. Dissatisfied with the judgment, Xiangxieli filed an appeal. After a trial, Shanghai Municipal No.1 Intermediate People's Court was of the opinion that although it had been agreed in the contract at issue that Xiangxieli should make the payment upon receipt of the invoice from Zongheng, Xiangxieli had not filed any objection against Zongheng for not receiving the invoice or execute the defense of first performance during the agreed payment period, while instead, Xiangxieli had successively made most of the payment and even paid the second installment of advertisement fee to Zongheng during the litigation period. Therefore, the above behavior of Xiangxieli could be deemed already as a waiver of the defense of first performance. Due to the contract term agreed under the contract at issue was ended in July 2008, and Zongheng had already transferred relevant shares to an outsider, the contract at issue was actually impossible to be continuously performed, Xiangxieli's claim requesting continuous performance of the contract at issue could not be supported. Taking into consideration that evidences provided by Zongheng were insufficient to prove that it had issued invoices to Xiangxieli, which could possibly exert certain impact upon timely payment by Xiangxieli, it is approved that Zongheng, at its own discretion, renounces to claim the late fee. After termination of the contract at issue, the debt and credit relation occurred due to termination of the contract could be settled separately. Based on this, the civil judgment (2008) Hu Yi Zhong Min Si (Shang) Zhong Zi No.669 was rendered by Shanghai Municipal No.1 Intermediate People's Court on June 13, 2008, ordering termination of the contract at issue.

The court of first instance was of the opinion that the dispute of this case focused on whether Zongheng could confiscate the deposit under the contract at issue. First of all, it had been agreed in the contract that Zongheng should issue a formal advertisement operation invoice to Xiangxieli prior to the payment by Xiangxieli. The transaction habit of invoice before payment had been further explicitly recognized by both parties in the contract, which indicated the great significance attached to the sequence of obligation performance by both parties. After the trial by the court of the second instance, it is found that Zongheng did not have sufficient evidences to prove that it had implemented its pre-contract obligation of issuing invoices on time. Therefore, the behavior of Zongheng could, to some extent, exert impact upon the timely payment by Xiangxieli. Secondly, Xiangxieli's conduct of not making payment within agreed period had been acknowledged and confirmed by the judgment that had already come into force; however, Xiangxieli's successive payment behavior constituted a waiver of its right of defense of first performance. As provided in Article 67 of PRC Contract Law, if each party has an obligation towards the other and a sequence for the performance of those obligations was agreed upon but the party which was to perform his obligation first fails to do so, the other party has the right to refuse his demand for performance. Payment period as agreed by the contract at issue was set based on the sequence of performance. According to the contract, Xiangxieli absolutely had the right to refuse the demand for payment before Zongheng's issuance of the invoice; however, Xiangxieli did not choose to refuse but successively made the payment. Therefore, it could be concluded that the above conduct of Xiangxieli could be deemed as of waiver of the defense of first performance. However, waiver does not equal to a breach, because the agreed payment period is under an uncertain status due to the breach of Zongheng. Thirdly, it had been agreed in the contract that if Xiangxieli delays the payment for 25 days, Zongheng is entitled to terminate the contract and the deposit of RMB 1 million should not be refunded. Such provision is provided for the time point of Zongheng's executing the right to terminate the contract and confiscation of the deposit. In other words, if the time when Xiangxieli makes the payment exceeds 25 days after the agreed payment period, Zongheng shall have the right to execute such right within a reasonable period. On the other hand, it shall be deemed as a waiver. The contract does not grant Zongheng the right to execute the right of confiscation at any time, but it has a time restriction. In fact, Zongheng did not execute the right of confiscation within a reasonable period, but instead during the litigation of the previous case, chose to demand payment for the late fee, Zongheng's conduct could also be deemed as a waiver of the right of confiscation. Based on the above, as there are discrepancies between the agreement and the actual performance, there are constant disputes between both parties. No matter it is the waiver of the defense of first performance or the waiver of the right of confiscation, it starts from and is determined from a perspective of fairness and reasonableness and for the benefit of dispute settlement. Taking into consideration that it is impossible to reach an agreement between both parties regarding the share buyout matters, and the contract at issue has been terminated, Zongheng's continuous occupancy of the deposit had been lacking of factual and legal basis; therefore, Zongheng should refund the deposit to Xiangxieli.

Based on the above, in accordance with Article 98 of the PRC Contract Law, the court of the first instance has rendered the judgment as follows: Zongheng should refund the deposit in the amount of RMB 1 million to Xiangxieli within ten days after effectiveness of the judgment. The case acceptance fee in the amount of RMB 13,800 will be collected in half at the amount of RMB 6,900, which should be borne by Zongheng.

After the judgment being rendered by the court of first instance, Zongheng was dissatisfied and filed an appeal with this court, requesting to cancel the judgment of first instance and amend it as reject the litigation requests filed by Xiangxieli during the trial of first instance. The appellate reasons were as follows: 1. Xiangxieli's fundamental breach of contract resulted in termination of the contract, the late fee demanded by Zongheng was against Xiangxieli's liability for breach regarding the deferred payment, while confiscation of the deposit was against the liability for breach regarding termination of the contract; both of which were not contradictory to each other. The facts asserted by the court of the first instance were wrong; 2. Zongheng had never implied to give up its right to confiscate the deposit. And it had been agreed in the contract that if Xiangxieli delays the payment, the Appellant is entitled to convert the deposit of RMB 1 million into the liquidated damage to confiscate.

The Appellee Xiangxieli defended that since Zongheng failed to provide the advertisement operation invoices, which caused the untimely payment, and the judgment of the second instance for another case did not recognize the fundamental breach at Xiangxieli's side either, it merely asserted that Xiangxieli had waived its right of defense of first performance, thus it requested to reject Zongheng's appellate requests and maintains the original judgment. During the trial of this case by this court, neither party has provided any new evidence.

After the trial, this court has found that the facts asserted by the court of first instance are correct which is affirmed by this court.

This court is of the opinion that the dispute summarized by the court of the first instance focuses on whether Zongheng could confiscate the deposit under the contract at issue, for which neither party has any objection. Now the Appellant Zongheng is of the opinion that it has never implied that it waives the right to confiscate the deposit of RMB 1 million, the late fee is claimed against Xiangxieli's liability for breach regarding the deferred payment, confiscation of the deposit is against the liability for breach concerning termination of the contract, both of which are not contradictory to each other. Since the reason caused termination of relevant contract is the fundamental breach on Xiangxieli's side regarding the deferred payment, thus Zongheng is entitled to confiscate such deposit of RMB 1 million, the facts asserted by the court of the first instance regarding this are wrong.

This court through the trial and examination of evidences provided by both parties, is of the opinion that during performance of the contract at issue, for Zongheng, its failure to provide advertisement operation invoices on time as agreed in the contract constitutes a breach, and Zongheng's such breach, to certain extent, caused that Xiangxieli did not make the payment of deposit and advertisement operation transfer fee on time as agreed in the contract. However, during the following performance procedure, Xiangxieli paid the deposit of RMB 1 million and advertisement operation transfer fee for the first quarter to Zongheng in several installments, which had been received by Zongheng also in several installments accordingly. Xiangxieli has started to make the relevant payments even before receipt of advertisement operation invoices, which conforms to the fact asserted by the court of the first instance that Xiangxieli had waived its right to refuse payment as its right of defense of first performance. On the other side, Zongheng did not timely execute its right to terminate the contract and confiscate the deposit due to Xiangxieli's deferred payment, but instead accepted the deferred payment of deposit and advertisement operation transfer fee from Xiangxieli, which indicates that Zongheng chose to recognize Xiangxieli's continuous performance of the contract, without executing its right to confiscate the deposit. In addition, under the circumstances that not informing Xiangxieli, Zongheng has concluded a share transfer agreement with an outsider of this case, which is actually the fundamental reason causing the impossibility of continuous performance of the contract and further termination of such contract. This court also has noticed that such appellate claims filed by Zongheng had already been put forward during the original trial. Since during the trial conducted by this court, Zongheng fails to provide further evidences accordingly to support its claim, thus the appellate opinions from Zongheng are not supported by this court.

Based on all of the above, the appellate claims of the Appellant Zongheng lack of factual basis, thus are not supported by this court. The original judgment which asserted facts clear and correctly applied laws, should be maintained. In accordance with item (1), Para 1 of Article 153, and Article 158 of PRC Civil Procedure Law, the judgment is as follows:

To dismiss the appeal and maintains the original judgment.

The case acceptance fee in the amount of RMB 13,800 for the second instance should be borne by the Appellant, Shanghai Zongheng Pinyu Advertisement Co., Ltd.

This judgment is final.

Presiding Judge: Gu Keqiang
Acting Judge: Jin Cheng
Acting Judge: Wang Wei
January 8, 2009
Recorded by: Zhang Qing

Appendix I — Mobile Segment Transactions

Ownership of Mobile Entities at Claimed Time of Acquisition			
Company Name	Purported Date of Acquisition	Owner at Acquired Time	Duration of Ownership
Guangzhou Xuanwu	March 1, 2007	Li Zhi Fu	2006/6 - 2007/8
Shenzhen Julan	March 1, 2007	Hu Yin／Zou Gang／Qu Xiaohui／Wang Jinguo	2007/2 - 2008/8
Shenzhen Mengwang	March 1, 2007	Chen Xin／Yu Wen Shen／Huang Yonggang	2005/10 - 2008/12
Beijing Shiji Zhongkai	April 1, 2007	Huang Yijuan／Dongguan Keda Computer System Co., Ltd	2004/5 - 2008/12
Jingzhun	April 1, 2007	Ying Xiaoxiong	2007/3 - Present
Dongguan Yaya	October 1, 2007	Ling Zhenxia／Zhang Tao	2005/1 - 2010/6

Acquisition and Disposal of Mobile Companies (US$)				
Company Name	Date of Acquisition	Proceed Paid	Date of Disposal	**Loss on Disposal**
Beijing Yitong	March 1, 2007	$1,973,334	April 30, 2008	$2,456,403
Guangzhou Xuanwu	March 1, 2007	$6,559,550	April 30, 2008	$6,483,157
Zhengzhou Meihe	March 1, 2007	$6,750,909	April 30, 2008	$5,846,518
Shenzhen Julan	March 1, 2007	$6,576,027	April 30, 2008	$6,190,755
Shenzhen Mengwang	March 1, 2007	$4,497,825	April 30, 2008	$2,589,476
Beijing Shiji Zhongkai	April 1, 2007	$8,106,166	April 30, 2008	$10,552,695
Jingzhun	April 1, 2007	$9,089,616	April 30, 2008	$14,377,272
Zhongyi Ruantong	October 1, 2007	$1,191,833	April 30, 2008	$912,312
Dongguan Yaya	October 1, 2007	$1,540,612	February 28, 2009	$1,588,110
Total		**$46,285,872**		**$50,996,698**