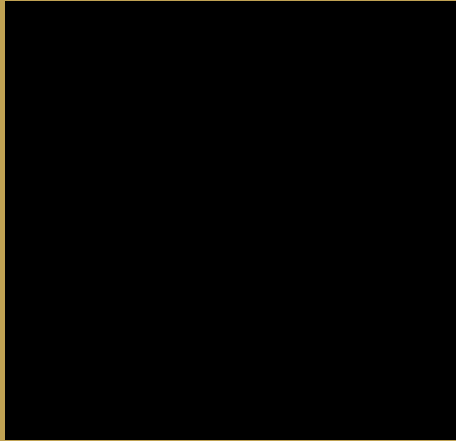




Focus Media Holding Limited

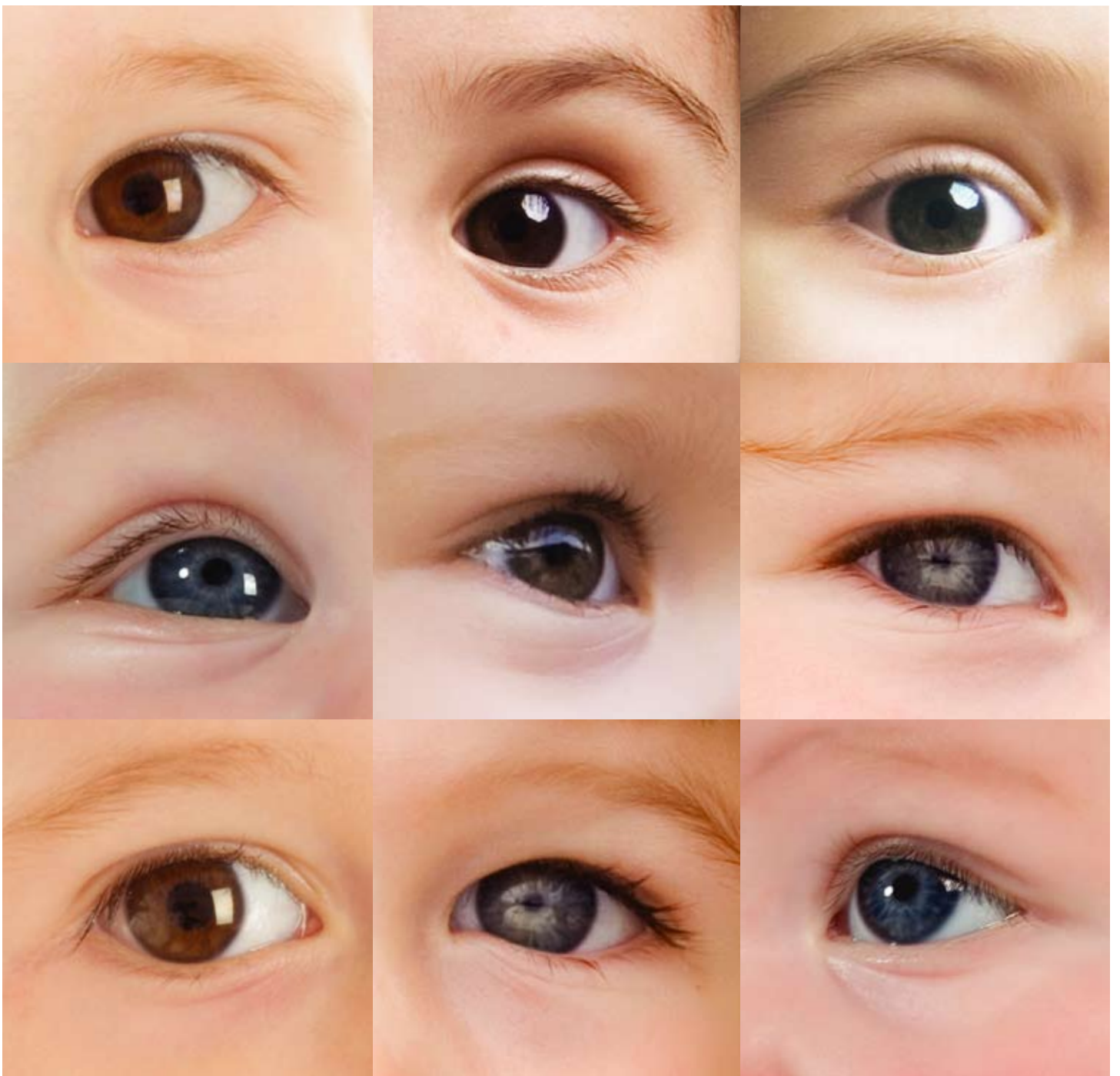


2007 ANNUAL REPORT

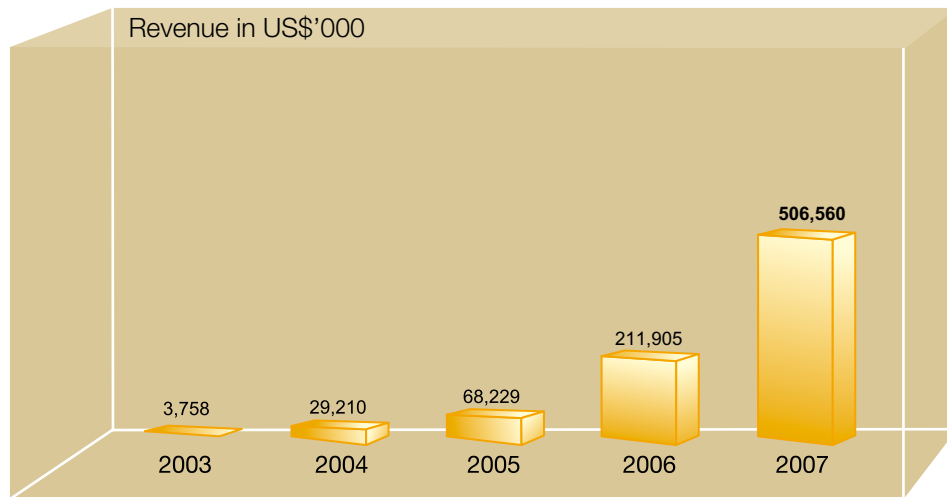


Contents

02	Financial Highlights
04	Letter to Shareholders
08	Management's Discussion and Analysis
43	Report of Independent Registered Public Accounting Firm
44	Consolidated Balance Sheets
46	Consolidated Statements of Operations
47	Consolidated Statements of Shareholders' Equity/(Deficiency) and Comprehensive Income
49	Consolidated Statements of Cash Flows
51	Notes to the Consolidated Financial Statements
	Corporate Information



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Revenues*Income from operations*

SELECTED CONSOLIDATED FINANCIAL DATA

The following table summarizes selected consolidated financial data, which should be read in conjunction with our Consolidated Financial Statements and Notes thereto and with Management's Discussion and Analysis of Financial Condition and Results of Operations included elsewhere herein.

(In thousands, except per share data)

Year Ended December 31,	2007	2006	2005	2004	2003
STATEMENT OF OPERATIONS DATA:					
Net revenues	\$ 506,560	\$ 211,905	\$ 68,229	\$ 29,210	\$ 3,758
Income from operations	143,855	80,378	22,786	12,953	525
Net income	144,436	83,197	23,548	373	25
Income (loss) per share — diluted	\$ 0.24	\$ 0.16	\$ 0.06	\$ (0.07)	\$ 0.00
CASH PROVIDED BY (USED IN):					
Operating activities	\$ 166,960	\$ 93,355	\$ 11,269	\$ 4,045	\$ 1,320
Investing activities	(342,881)	(121,994)	(117,667)	(11,071)	(2,706)
Financing activities	442,976	153,521	119,169	28,978	2,125
As of December 31,	2007	2006	2005	2004	2003
BALANCE SHEET DATA:					
Cash, cash equivalents and short-term investments	\$ 540,562	\$ 164,611	\$ 71,489	\$ 22,669	\$ 716
Total assets	2,139,538	1,106,242	212,354	56,415	5,306
Shareholders' equity (deficiency)	1,854,944	1,050,744	191,415	(5,573)	1,183





Jason Nan Chun Jiang
Chairman

we

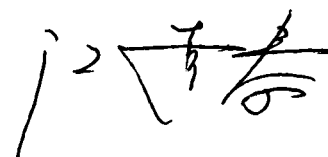
will continue to build upon our unwavering market leadership in the digital out-of-home and Internet advertising business in China.

In 2007, Focus Media made significant progress towards becoming the largest digital media group in China. Since we started our commercial location LCD advertising network in 2003, Focus Media has always stayed in the forefront of China's growing digital media market. During the past year, we entered the Internet advertising market through a number of strategic acquisitions and rapidly grew into one of the leading Internet advertising companies in China. We have created a cutting-edge Internet advertising business model with unparalleled scale and high advertising effectiveness in China.

In 2007, Focus Media achieved over 100% growth in revenue. Our 2007 net income per share also grew significantly. Our service quality to our advertising clients has significantly improved. We continue to create new technology, new service and new media business models. Through these efforts, we have maintained high growth, strengthened our market leadership in China, while building a solid foundation for sustainable growth going forward.

In 2008, we will continue to build upon our unwavering market leadership in the digital out-of-home and Internet advertising business in China. Today, digital media has widely spread into every corner of Chinese urban consumers' daily life style. We will continue to look for new media opportunities with high consumer targeting capability for our advertising clients and make efforts to further

enhance our products and services. Our goal is to help our customers to improve their advertising investment ROI, and to provide highly efficient and non-intrusive information channels to urban consumers in China, and ultimately reward our investors.



Jason Nan Chun Jiang
Executive Chairman of Board
Focus Media Holding Limited



Zhi Tan
Chief Executive Officer

In 2007, Focus Media received further recognition from industry experts and advertising clients, based on its unique business model and distinguishing media capabilities such as segmentation, vividness and captivity. We have completed the migration from an out-of-home media into a multiplatform digital media group. Our digital platform has established a dominant leading position across two major high-growth digital media areas, namely digital out-of-home and Internet advertising.

While we continue to break records in our business, we aim to continue to build a strong and professional management team. Since I become CEO of Focus Media in January 2008, I have started to think about the growth of Focus Media from three dimensions, as a combination of a sales-driven, management-driven and culture-driven company. Focus Media has been very successful in its traditional businesses. However, we need to do more in building Focus Media's management framework, in terms of being systematic, professional and spirit-building. One of my priorities is to scale up our current businesses. To achieve this, we must build Focus Media into a professional company, with modern management principals and high system efficiency. We have already made efforts in building management system and corporate spirit.

MANAGEMENT SYSTEM

Based on years' of management experience in IT companies, I think of a 'crossover' method, that is an IT-based management system, built on complete corporate and operational data, to create value from

integration. At present, the company has completed system development, which will facilitate internal and external co-operation and resource allocation, help management to make decisions based on solid data support, and assist sales. Meanwhile, we may further adapt our strategy and management system to meet clients' requests and business development at different stages.

In addition, we apply an OTE reward system, which puts sales people in a high-speed, high-pressure and high-spirit environment, and aims to encourage high-returns for the company and clients, as well as personal rewards.

CORPORATE CULTURE

Focus Media is also known as a company that has grown through merger and acquisitions. It is critical to build a uniform corporate culture. On one hand, Focus Media is open to co-operation externally, which allows us to take in new things and stay creative. On the other hand, we quickly consolidate the acquired tier-II teams into the tier-I level, through team building and group training. We emphasize team spirit and a corporate culture based on 'passion, efficiency, professional and co-operation'.

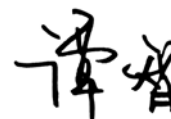
EXPECTATION

For Focus media, our most critical job is to achieve advertiser recognition. We believe that digital media will be the core of media innovation in China going forward. Digital media will be more and more accepted by advertisers, based on the targeting capability, interactivity and high flexibility of digital media. Going forward, Focus Media will continue to serve advertising clients and our investors with a high sense of responsibility. We will build our core competence, from a shared corporate culture of

passion, efficiency, professional and co-operation, a high-efficiency management system and professional service teams.

China's economy continues to grow at high speed. The 2008 Beijing Olympics and the 2010 Shanghai World Expo are right in front of us. Focus Media, as the pioneer of China's new media market, will take advantage of these opportunities.

In Focus Media, Jason and I are in close co-operation. Jason Jiang, the executive chairman of board will focus on new media development, and I, as chief executive officer, focus more on corporate management. Though we share difference roles and responsibilities, we keep working together on strategic planning. We both are company executives, serving the board and our shareholders in general. This innovative structure will combine our both expertise and bring extra value to Focus Media.



Zhi Tan

Chief Executive Officer

Focus Media Holding Limited

Management's Discussion and Analysis

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

OVERVIEW

Our out-of-home advertising network consists of (i) our commercial location network (including our outdoor LED, movie theater networks), in-store network, and our poster frame network, which we collectively refer to as our digital out-of-home television networks, (ii) our mobile handset advertising network and (iii) our Internet advertising agency business. We have experienced significant revenue and earnings growth, and the size of our network has grown significantly, since the commercial launch of our advertising network in May 2003.

The significant increase in our operating results since we commenced our current business operations is attributable to a number of factors, including the substantial expansion of our flat-panel display network, the launch and ongoing expansion of our in-store network, the commencement of operations of our poster frame network, the successful execution of strategic acquisitions, such as our acquisition of Framedia, Target Media, Focus Media Wireless, Allyes and CGEN, and the growing acceptance of our multi-platform network as an appealing advertising medium by our clients.

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

- Overall economic growth in China, which we expect to contribute to an increase in advertising spending in major urban areas in China where consumer spending is concentrated;
- Our ability to increase sales of advertising time slots and extend the duration of our advertising cycle on our commercial location and in-store networks;
- Our ability to expand our client base through promotion of our services and cross-selling;
- Our ability to identify and create new advertising channels by establishing separate advertising networks that enable advertisers to target a diverse range of consumer groups with specific demographic profiles;
- Our ability to successfully enter into the mobile handset network advertising business, in part through our acquisition of Focus Media Wireless;

- Our ability to successfully operate and market our new outdoor LED network;
- Our ability to successfully operate and market our new Internet advertising marketing and technology agency; and
- Our ability to acquire companies that operate advertising businesses complementary to our existing operations.

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

As we continue to expand our network, we expect to face a number of challenges. We have expanded our network rapidly, and we, as well as our competitors, have occupied many of the most desirable locations in China's major cities. In order to continue expanding our network in a manner that is attractive to potential advertising clients, we may continue to enter into new advertising media platforms and to establish additional stand-alone networks that provide effective channels for advertisers. In addition, we must react to continuing technological innovations, such as the potential uses of wireless and broadband technology in our network, and changes in the regulatory environment.

Our financial results for 2006 also include those of Framedia that we acquired on January 1, 2006, of Target Media that we acquired on February 28, 2006 and, starting in the second quarter of 2006, those of Focus Media Wireless that we acquired in March 2006. Starting in the second quarter of 2007, our financial results include those of Allyes, the acquisition of which we completed in March 2007. Our financial results for 2008 will include those of CGEN, which we acquired in January 2008.

REVENUES

In 2005, 2006 and 2007, we had total revenues of \$68.2 million, \$211.9 million and \$506.6 million, respectively. We generate revenues primarily from the sale of advertising time slots on our out-of-home television advertising networks and, beginning in 2006, from the sale of frame space on our poster frame network. Our advertising service revenue includes the sale of advertising time slots on our network, as well as a small amount of revenue attributable to other advertising related services we provide to our advertising clients. We also derive revenues from the sale of our flat-panel displays to regional distributors, which we refer to as our advertising equipment revenue. In 2005, 2006 and 2007, our advertising service revenue accounted for 98.0%, 99.1% and 99.8% of our total revenues, respectively. The following table sets forth a breakdown of our total revenues for the periods indicated:

	For the year ended December 31,					
	2005		2006		2007	
	% of total		% of total		% of total	
	\$	revenues	\$	revenues	\$	revenues
(in thousands of U.S. dollars, except percentages)						
Net revenues:						
Commercial location network(1)	\$ 61,435	90.0%	\$ 132,601	62.3%	\$ 220,683	43.5%
In-store network:(1)	5,469	8.0%	26,907	12.7%	27,444	5.4%
Poster frame network(1)	—	—	40,904	19.3%	85,472	16.9%
Mobile Handset Advertising Network	—	—	10,101	4.8%	46,909	9.3%
Internet Advertising Network	—	—	—	—	124,938	24.7%
Advertising service revenue	66,904	98.0%	209,973	99.1%	505,446	99.8%
Other revenue	1,325	2.0%	1,932	0.9%	1,114	0.2%
Total revenues	\$ 68,229	100.0%	\$ 211,905	100.0%	\$ 506,560	100.0%
Net revenues:						

- (1) Advertising service revenue is presented net of business tax. Business tax on advertising service revenue from our commercial location network amounted to \$6.0 million, \$13.6 million and \$19.9 million in 2005, 2006 and 2007, respectively. Business tax on advertising service revenue for our in-store network amounted to \$2.8 million and \$2.8 million in 2006 and 2007, respectively. Business tax on advertising service revenue for our poster frame network amounted to \$4.0 million and \$7.9 million for 2006 and 2007, respectively. Business tax on advertising service revenue for our mobile handset advertising network amounted to \$0.8 million and \$1.6 million in 2006 and 2007, respectively. Business tax for our Internet advertising service revenue amounted to \$5.0 million in 2007. Business tax includes business tax ranging from 3% to 5.55% and cultural industries tax of ranging from 0% to 4.0% of our gross advertising service revenue.

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

For the year ended December 31,							
	2005		2006		2007		
	(in thousands of U.S. dollars, except percentages)						
Gross Revenue:							
Commercial Locations							
— Unrelated parties	\$ 59,435	87.1%	\$ 130,474	61.6%	\$ 238,119	47.0%	
— Related parties	7,991	11.7%	15,228	7.2%	2,468	0.5%	
Total Commercial Locations	67,426	98.8%	145,702	68.8%	240,587	47.5%	
In-store Network							
— Unrelated parties	5,475	8.0%	25,330	12.0%	28,986	5.7%	
— Related parties	518	0.8%	4,380	2.0%	1,301	0.3%	
Total in-store network	5,993	8.8%	29,710	14.0%	30,287	6.0%	
Poster Frame Network							
— Unrelated parties	—	—	44,893	21.2%	93,157	18.4%	
— Related parties	—	—	—	—	244	0.0%	
Total Poster Frame Network	—	—	44,893	21.2%	93,401	18.4%	
Mobile Handset Advertising Network							
— Unrelated parties	—	—	10,880	5.1%	48,407	9.6%	
— Related parties	—	—	—	—	114	0.0%	
Total Mobile Handset Advertising network	—	—	10,880	5.1%	48,521	9.6%	
Internet Advertising Network							
— Unrelated parties	—	—	—	—	128,830	25.4%	
— Related parties	—	—	—	—	1,140	0.2%	
Total Internet Advertising network	—	—	—	—	129,970	25.7%	
Gross Advertising Services Revenue:							
	73,419	107.6%	231,185	109.1%	542,766	107.4%	
Less: Sales taxes:							
Commercial Locations	5,991	8.8%	13,641	6.4%	19,904	3.9%	
In-store Network	524	0.8%	2,803	1.3%	2,843	0.6%	
Poster Frame Network	—	—	3,989	1.9%	7,929	1.6%	
Mobile Handset Advertising Network	—	—	779	0.4%	1,612	0.3%	
Internet Advertising Network	—	—	—	—	5,032	1.0%	
Total sales taxes	6,515	9.6%	21,212	10.0%	37,320	7.4%	
Net Advertising Service Revenue							
	66,904	98.0%	209,973	99.1%	505,446	99.8%	
Add:							
Other revenue:	1,325	2.0%	1,932	0.9%	1,114	0.2%	
Net revenues:	\$ 68,229	100.0%	\$ 211,905	100.0%	\$ 506,560	100.0%	

Advertising Service Revenue

Sources of Revenues. We derive most of our total revenues from the sale of time slots on our commercial location network and our in-store network to unrelated third parties and to some of our related parties. We report our advertising revenue between related and unrelated parties because historically more than 10% of our advertising service revenues came from clients related to some of our directors. Our advertising services to related parties were provided in the ordinary course of business on the same terms as those provided to our unrelated advertising clients on an arm's-length basis.

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

Our advertising service revenue reflects a deduction for business taxes and related surcharges incurred in connection with the operations of Focus Media Advertisement and its subsidiaries. Their revenues are subject to a sales tax consisting of approximately ranging from 3% to 5.55% business tax plus a cultural industries tax ranging from 0% to 4.0% on revenues earned from their advertising services provided in China. We deduct these amounts from our advertising service revenues to arrive at our total revenues attributable to advertising services.

Factors that Affect Our Advertising Service Revenue

Digital Out-of-home Advertising Service Revenues

Prices for advertising services on our digital out-of-home advertising networks also vary significantly from city to city as income levels, standards of living and general economic conditions vary significantly from region to region in China, which in turn affect the advertising rates we are able to charge for time slots and frame space.

Commercial Location Network

Our advertising service revenue derived from our commercial location network is directly affected by the average price we charge for the advertising package provided to our customers, after taking into account any discount offered, as well as by the following factors:

- *LCD display network.* The number of flat-panel displays in our network and the desirability, quality and pedestrian traffic of the locations where we are able to lease space to install our flat-panel displays;
- *Outdoor LED billboard network.* The number of publicly placed LED billboards in our network and the desirability, quality and pedestrian traffic of the locations of the LED billboards we own or lease from third-parties; and

- *Movie theater advertising network.* The number of movie theaters in which we have leased screen time, our expansion into additional theaters, and the length of the leased screen time, which is currently three minutes per screening per theater prior to movie screenings at movie theaters.

In-store Network

Our advertising service revenue derived from our in-store network is directly affected by the number of flat-panel displays in our network, the number of hypermarkets, supermarkets and convenience stores in the network, and the average price we charge for the advertising package provided to our customers, after taking into account any discount offered.

Poster Frame Network

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

- the number of frames in our poster frame network. We sell frame space on our poster frame network on a per frame basis. Increasing the number of residential and other locations on our poster frame network allows us to increase the number of frames on our network, thereby increases the available frame space for sale to advertisers. As we upgrade the network to incorporate more digital poster frames, we will also increase the available space as multiple advertisements can be placed on a digital frame on time-shared basis; and
- the average price we charge for frame space on a per frame basis, after taking into account any discount offered.

Mobile Handset Advertising Service Revenues

Prior to April 1, 2008, our advertising service revenue derived from our mobile handset advertising network was directly affected by:

- the number of messages we deliver to mobile phone users. We charge advertisers fees based on the number of successfully delivered messages; and
- the average price we charge per message.

Subsequent to April 1, 2008, our advertising service revenue derived from our mobile handset advertising network is directly affected by:

- the number of times mobile phone users access WAP-based content that contains our advertising content. We charge advertisers fees based on the number of user accesses; and
- the average price we charge per access.

Internet Advertising Service Revenues

As of March 2007, we derive revenue from our Internet advertising business operated by Allyes. Our advertising service revenue derived from our Internet advertising services is directly affected by:

- the number of customers who purchase agency services from us. We agree to provide advertising agency services and technology, and we charge fees based on the size and duration of the advertising campaign and the number of daily impressions or "hits" on the Internet advertisement; and
- our ability to identify relevant Internet user traffic and deliver effective advertisements for our advertising clients.

Network Expansion. Many of the most desirable locations for our digital out-of-home advertising network have been occupied, either by our network as a result of our expansion or by our competitors. As a result, we will need to rely on means other than the rapid increase in the number of locations, flat-panel displays, LED billboards and advertising poster frames in order to continue growing our revenues. We have focused, and expect to continue to focus, on developing new channels in our out-of-home television advertising networks and entering into new types of advertising media operations to continue to grow our revenues and to address these potential capacity constraints on our existing network. These steps have included: (1) expanding our digital out-of-home advertising network through increasing the size and scope of our existing commercial location, in-store and poster frame networks, and adding new media such as LED billboards and movie theater screens to our out-of-home television networks, (2) establishing discrete stand-alone channels on our commercial location network, such as our premier A and B office building, travel, fashion, elite and healthcare channels and (3) expanding our media platform into new areas such as mobile handset advertising services and Internet advertising services and software packages. We expect to continue to explore opportunities to open up additional channels on our existing network and to enter into new advertising media platforms in China. We intend to continue expanding our out-of-home advertising network both through increasing the number of locations, displays and advertising poster frames on our commercial location, in-store and poster frame networks and through strategic acquisition of competitors and businesses that complement our existing out-of-home advertising network. In addition, we entered into new advertising platforms through Focus Media Wireless' mobile handset advertising network and our outdoor LED billboard network, and into Internet advertising services through our recent acquisition of Allyes. We believe these measures will enable us to continue the future growth of our business.

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

indicates that our revenues would tend to be lower in the first quarter and higher in the fourth quarter of each year, assuming other factors were to remain constant, such as our advertising rates and the number of available time slots on our network.

Revenue Recognition. We typically sign standard advertising contracts with our advertising clients, which require us to run the advertiser's advertisements on our network in specified cities for a specified period, typically from four to twelve weeks. We recognize advertising service revenue ratably over the performance period of the advertising contract, so long as collection of our fee remains probable. We do not bill our advertising clients under these contracts until we perform the advertising service by broadcasting the advertisement on our network. Revenue collected from our poster frame network is recognized in substantially the same manner as revenues collected under the advertising contracts used for our commercial location and in-store networks.

Revenues primary consist of revenues from advertising and advertising-related services and revenues from sales of Adforward software.

Advertising revenues, net of agency rebates are recognized ratably over the period in which the advertisement is displayed. Advertising revenues are recognized in accordance with Staff Accounting Bulletin ("SAB") No. 104, "Revenue Recognition in Financial Statements" ("SAB 104"). In accordance with SAB 104, revenues are recognized when all four of the following criteria are met: (i) persuasive evidence of agreement exists; (ii) delivery of service has occurred; (iii) the price is both fixed and determinable; and (iv) collection of the resulting receivable is reasonably assured. The Company sells Adforward subscriptions and perpetual licenses. Revenues are recognized for subscription arrangements ratably over the subscription period for those with fixed fees and as earned (based on actual usage) under our variable fee arrangements. Under perpetual license agreements, revenue recognition is generally commenced when delivery has occurred, software has been installed and training has been provided as the Company does not currently have vendor-specific objective evidence of fair value, or VSOE, for either installation or training services.

Revenue primarily consists of service revenue for delivering advertisement and other messages to the targeted mobile phone devices through channels provided by telecommunication vendors. Revenues from such services, net of agency rebates, are recognized when these messages are delivered to the vendor's channels. Accordingly, revenue is recognized when all four of the following criteria are met: (i) pervasive evidence that an arrangement exists; (ii) delivery of the services has occurred; (iii) the selling price is both fixed and determinable; and (iv) collection of the resulting receivable is reasonably assured. Prepayments for the advertising services are deferred and recognized as revenue when the advertising services are rendered.

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

Our accounts receivable are general unsecured obligations of our advertising clients and we do not receive interest on unpaid amounts. We make specific reserves for accounts that we consider to be uncollectible. We also provide a general reserve for uncollectible accounts that we reassess on an annual basis. In 2005, 2006 and 2007, we made provision of \$235,604, \$1,844,605 and \$3,655,448, respectively, for accounts receivable that were outstanding for longer than six months. The average number of days outstanding of our accounts receivable, including from related parties, was 71, 71 and 92, respectively, as of December 31, 2005, 2006 and 2007.

Other Revenue

We also derive a portion of our total revenues from the sale of flat-panel displays to our regional distributors on a cost-plus basis, which we record as advertising equipment revenue. Our advertising equipment revenue represented 2.0%, 0.9% and 0.2% of our total revenues in 2005, 2006 and 2007, respectively. Our advertising equipment revenue is recorded net of the 17% value added tax to which equipment sales in China are subject. We expect that advertising equipment sales as a percentage of our total revenues will continue to be low.

COST OF REVENUES

Our cost of revenues consists of costs directly related to the offering of our advertising services and costs related to our sales of advertising equipment.

The following table sets forth our cost of revenues, divided into its major components, by amount and percentage of our total revenues for the periods indicated:

	For the year ended December 31,						
	2005		2006		2007		
	\$	% of total revenues	\$	% of total revenues	\$	% of total revenues	
(in thousands of U.S. dollars, except percentages)							
Total revenues	\$ 68,229	100.0%	\$ 211,905	100%	\$ 506,560	100%	
Cost of revenues:							
Net advertising service cost:							
Commercial location network	18,611	27.3%	42,836	20.2%	79,625	15.7%	
In-store network	7,137	10.5%	18,106	8.5%	23,502	4.6%	
Poster frame network	—	—	13,621	6.4%	28,086	5.5%	
Mobile Handset network	—	—	6,052	2.9%	23,193	4.6%	
Internet Advertising	—	—	—	—	93,238	18.4%	
Advertising service cost	25,748	37.8%	80,615	38.0%	247,644	48.8%	
Other cost	976	1.4%	765	0.4%	798	0.2%	
Total cost of revenues	26,724	39.2%	81,380	38.4%	248,442	49.0%	
Gross profit	\$ 41,505	60.8%	\$ 130,525	61.6%	\$ 258,118	51.0%	

Advertising Service Costs

Our cost of revenues related to the offering of our advertising services on our advertising network consists of location costs, flat-panel display depreciation costs and other cost items, including salaries for and travel expenses incurred by our network maintenance staff and costs for materials.

Our location costs for our out-of-home television networks consist of:

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

Generally, we capitalize the cost of our media displays and recognize depreciation costs on a straight-line basis over the term of their useful lives, which we estimate to be five years. The primary factors affecting our depreciation costs are the number of flat-panel displays in our network and the unit cost for those displays, as well as the remaining useful life of the displays. We expect our results of operations for a period of at least seven years beginning in 2006 to be negatively affected by the amortization of intangible assets in relation to, among other things, material contracts and customer lists as a result of several acquisitions, particularly Framedia and Target Media.

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

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

In-store Network. The primary costs of revenues connected with our in-store network are location costs resulting from rental and maintenance fees and depreciation costs for our displays. We expect these costs to continue to increase in 2006 as we expand our in-store network and to decrease as a percentage of advertising service revenue for our in-store network.

Poster Frame Network. The primary costs of revenues connected with our poster frame network are location costs resulting from rental fees. Depreciation costs for our frames and other costs for salary and maintenance fees also account for a significant portion of cost of revenues for our poster frame network. We expect these costs to increase in 2006 as we expand our poster frame network but to decrease as a percentage of advertising service revenue for our poster frame network.

Wireless handset advertising network. Prior to April 1, 2008, the primary costs of revenues connected with our wireless handset advertising network are message costs charged by mobile advertisers. Since April 1, 2008 when we began focusing on advertising "pull" campaigns, and no longer send advertising messages to consumers without their consent, our primary costs relate to fees we pay to content providers in order to act as their agent for the mobile phone-accessed content they provide.

Internet advertising services network. The primary costs of revenues connected with our Internet advertising services network are advertising space leasing costs charged by gateway websites and research and development costs in connection with the development of Internet advertising software packages. We expect these costs to increase as we continue to expand this part of our business as Internet use continues to grow in China.

Other Cost

Our net advertising equipment cost consists of the amounts we pay to the contract assembler who purchases the components and assembles them into the flat-panel displays we sell to our regional distributors. Our net advertising equipment cost accounted for 1.4%, 0.4% and 0.2% of our total revenues in 2005, 2006 and 2007, respectively. The primary factors affecting our net advertising equipment cost are the number of flat-panel displays we sell and the unit cost we pay to our contract assembler for each such flat-panel display.

Operating Expenses and Net Income

Our operating expenses consist of general and administrative, selling and marketing expenses and amortization of acquired intangible assets. In 2004, our operating expenses also included a goodwill impairment loss. The following table sets forth our operating expenses, divided into their major categories by amount and as a percentage of our total revenues for the periods indicated.

	For the year ended December 31,						
	2005		2006		2007		
	\$	% of total revenues	\$	% of total revenues	\$	% of total revenues	
(in thousands of U.S. dollars, except percentages)							
Gross profit	\$ 41,505	60.8%	\$ 130,525	61.6%	\$ 258,118	51.0%	
Operating expenses:							
General and administrative	9,120	13.4%	25,723	12.1%	49,456	9.8%	
Selling and marketing	9,599	14.0%	25,762	12.2%	69,932	13.8%	
Other operating income	—	—	(1,338)	(0.6%)	(5,125)	(1.0%)	
Total	18,719	27.4%	50,147	23.7%	114,263	22.6%	
Income from operations	22,786	33.4%	80,378	37.9%	143,855	28.4%	

General and Administrative. General and administrative expenses primarily consist of salary and benefits for management and finance and administrative staff personnel, business tax mainly relating to license fees paid by our affiliated PRC companies to Focus Media Advertisement and to Focus Media Digital, office rental, maintenance and utilities expenses, depreciation of office equipment, other office expenses and professional services fees. General and administrative expenses accounted for 13.4%, 12.1% and 9.8% of our total revenues in 2005, 2006 and 2007, respectively. Salaries and benefits accounted for 26.9%, 23.3% and 22.2% of our general and administrative expenses in 2005, 2006 and 2007, respectively. We expect that our general and administrative expenses will be relatively stable as a percentage of total revenues in the near term but to increase in absolute terms as we hire additional personnel and incur additional costs in connection with the expansion of our business and with being a publicly traded company, including costs of enhancing our internal controls.

Selling and Marketing. Our selling and marketing expenses primarily consist of salaries and benefits, including share-based compensation expense for our sales staff, marketing and promotional expenses, and other costs related to supporting our sales force. Selling and marketing expenses accounted for 14.0%, 12.2% and 13.8% of our total revenues in 2005, 2006 and 2007, respectively. As we acquired more of our regional distributors, continue to expand our client base and have commenced operation of new advertising platforms, we increased our sales force, which resulted in an increase in salary expenses. We expect selling and marketing expenses to remain relatively stable as a percentage of total revenues.

Share-based Compensation. Prior to 2006, our share-based compensation expense relating to general and administrative and selling and marketing primarily consists of the amortized portion of deferred share-based compensation recognized by us. We issued options representing 10.87% of our issued share capital under our 2003 Employee Share Option Scheme, or the 2003 Option Plan. In addition, we have issued options representing 3.95% of our issued share capital under our 2005 Share Option Plan, or the 2005 Option Plan. In addition, we have issued options representing 3.6% of our issued share capital under our 2006 Share Option Plan, or the 2006 Option Plan. Our share-based compensation relating to general and administrative accounted for 7.5%, 23.8% and 22.1% of our general and administrative expenses in 2005, 2006 and 2007, respectively. Share-based compensation relating to selling and marketing accounted for 0.5%, 8.1% and 13.6% of our selling and marketing expenses in 2005, 2006 and 2007, respectively. Share-based compensation increased following the effectiveness, as of January 2006, of Statement of Financial Accounting Standards No. 123(R) relating to share-based compensation. As a result, we recorded share-based compensation expense of \$21.5 million for 2007.

Amortization of Acquired Intangibles. Our amortization of acquired intangibles consists of the amortized portion of intangible assets we acquired through our acquisition of other companies, businesses and assets. Amortization of acquired intangibles accounted for 0.6%, 2.7% and 4.9% of our total revenues in 2005, 2006 and 2007, respectively.

CRITICAL ACCOUNTING POLICIES

We prepare our financial statements in conformity with U.S. GAAP, which requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities on the date of the financial statements and the reported amounts of revenues and expenses during the financial reporting period. We continually evaluate these estimates and assumptions based on the most recently available information, our own historical experience and on various other assumptions that we believe to be reasonable under

the circumstances. Since the use of estimates is an integral component of the financial reporting process, actual results could differ from those estimates. Some of our accounting policies require higher degrees of judgment than others in their application. We consider the policies discussed below to be critical to an understanding of our financial statements as their application places the most significant demands on our management's judgment.

Share-based Compensation

Through 2005, we accounted for our share option plan using the intrinsic value method under Accounting Principles Board, or APB, No. 25. Effective the beginning of 2006, we adopted Statement of Financial Accounting Standards, or SFAS, No. 123-R, "Share-Based Payment", and elected to adopt the modified prospective application method. SFAS No. 123-R requires us to use a fair-value based method to account for share-based compensation. Accordingly, share-based expense is measured at the grant date, based on the fair value of the award, and is recognized as expense over the employees' requisite service period. Our share option plans are described in Note 12 to our consolidated financial statements.

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

Income Taxes

We account for income taxes under the provisions of SFAS No. 109, "Accounting for Income Taxes" and effective from January 1, 2007, the Group adopted FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109" ("FIN 48"), with the required disclosures as described in Note 13 to our consolidated financial statements., we record a valuation allowance to reduce our deferred tax assets to the amount that we believe is more likely than not to be realized. In the event we were to determine that we would be able to realize our deferred tax assets in the future in excess of their recorded amount, an adjustment to our deferred tax assets would increase our income in the period such determination was made. Likewise, if we determine that we would not be able to realize all or part of our net deferred tax assets in the future, an adjustment to our deferred tax assets would be charged to our income in the period such determination is made. We record income tax expense on our taxable income using the balance sheet liability method at the effective rate applicable to each of our affiliated entities in China in our consolidated statements of operations and comprehensive income.

Goodwill and Long-lived Assets Impairment

We test goodwill for possible impairment on an annual basis as of December 31 of each year and at any other time if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. Circumstances that could trigger an impairment test between annual tests include, but are not limited to:

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

As of December 31, 2005, 2006 and 2007, we had a goodwill balance of \$13.3 million, \$739.7 million and \$943.4 million, respectively, which is not deductible for tax purposes. We incurred a goodwill impairment loss of \$58,397 in 2004 in connection with our acquisition of Perfect Media which is part of the commercial location reporting segment. In conducting our annual impairment test, we undertook a valuation of Perfect Media using the expected present value of cash flow and the income approach valuation methods, which resulted in a goodwill impairment loss of \$58,397 in 2004, indicating that the value of Perfect Media was less than what we paid at the time we acquired it.

The fair value of each reporting unit is determined by allocating our total fair value among our reporting units using a combination of income approach and market approach.

We may incur additional goodwill impairment charges in the future although we cannot predict whether this will occur when we perform our goodwill impairment test each year.

We test long-lived assets for possible impairment if an event occurs or circumstances change that would more likely than not reduce the fair value of an asset group below its carrying amount. Asset recoverability is an area involving management judgement, requiring assessment in two steps as to whether the carrying value of assets can be supported by the undiscounted future cash flows and the net present value of future cash flows derived from such assets using cash flow projections which have been discounted at an appropriate rate. In calculating the net present value of the future cash flows, certain assumptions are required to be made in respect of highly uncertain matters such as revenue growth rates, gross margin percentages and terminal growth rates.

In March 2008, as a result of uncertainty in the mobile handset advertising industry in PRC, there was a triggering event which required the Group to reevaluate the carrying value of the goodwill and assets of the mobile handset advertising segment. The Group undertook a business restructuring in April 2008 to amend their strategic business plans and is working on the calculations for impairments and the costs related to exit activities.

TAXATION

Cayman Islands, the British Virgin Islands and Hong Kong

Under the current laws of the Cayman Islands and the British Virgin Islands, none of Focus Media Holding Limited, and its subsidiaries incorporated in Cayman Islands or the British Virgin Islands, is subject to tax on its income or capital gains. Focus Media Hong Kong, Allyes (China) Holding Company Limited and Hua Kuang Advertising Company Limited, our wholly owned subsidiaries incorporated in Hong Kong, is subject to profits tax rate of 17.5% on its assessable profits, yet interest derived from deposits placed in Hong Kong with authorized institutions is exempted from the Hong Kong profits tax. In addition, payment of dividends by either company is not subject to withholding tax in those jurisdictions.

Taxable Presence Exposure in the PRC

The newly enacted Enterprise Income Tax Law and its implementation regulations, as discussed below, provides that enterprises established under the laws of foreign countries or regions whose “de facto management bodies” are located within the PRC are considered PRC resident enterprises and will be subject to the PRC Enterprise Income Tax at the rate of 25% on their worldwide income. Under the Implementation Rules of the PRC Enterprise Income Tax Law, as discussed below, a “de facto management body” is defined as a body that has material and overall management and control over manufacturing and business operations, personnel and human resources, finances and treasury, and acquisition and disposition of properties and other assets of an enterprise. Due to the fact that substantially all of our operational management is currently based in the PRC, our Cayman Islands company and BVI company may be deemed as resident enterprises in the PRC. If we are treated as resident enterprises for PRC tax purposes, we will be subject to PRC tax on our worldwide income at the 25% tax rate, which would have an impact on our effective tax rate. Additionally, under such circumstances, dividends distributed from our PRC subsidiaries to our BVI company and ultimately to our Cayman Islands company, could be exempt from Chinese dividend withholding tax, and dividends from our Cayman Islands company to ultimate shareholders would be subject to Chinese withholding tax at 10% or a lower treaty rate.

PRC

Our PRC entities are subject to PRC business tax. We primarily pay 5% business tax on revenues generated from our commercial location, in-store network, poster frame network and internet advertising business, net any deductible advertising cost for business tax purpose. Revenues generated from our mobile handset advertising business generally pays a 3% business tax on the gross revenues. In addition, in 2005 Focus Media Digital pay a 5% business tax on the gross revenues derived from their contractual arrangements with Focus Media Advertisement and its subsidiaries and these taxes are primarily recorded in operating expenses.

In addition to business tax and the 4% cultural industries tax imposed on our advertising business and VAT imposed on our sales of advertising equipment, all of our PRC entities are subject to PRC enterprise income tax on their taxable income, except to the extent some of them enjoy temporary tax exempt status as described in further detail below.

Pursuant to PRC law, prior to January 1, 2008, enterprise income tax is generally assessed at the rate of 33% of taxable income. Most of our PRC entities are currently subject to this 33% enterprise income tax. State Administration of Taxation and its delegates of the PRC are authorized to grant an exemption from enterprise income tax of up to two years to qualifying newly established domestic companies that have no direct foreign ownership and that are financially independent and engaged in consulting services, technology services or the information industry, which includes advertising services. Focus Media Digital and Focus Media Advertising Agency were established in October 2004 and both were granted exemptions from enterprise income tax in 2004 and 2005. In 2006 and 2007, we continued our tax exempt status through New Focus Media Advertisement, New Focus Media Agency, Focus Media Defeng Advertisement, New Structure Advertisement and Focus Media Wireless, which were established during the period from October 2005 to June 2006 and have obtained tax-exempt approval for 2006 and 2007.

In 2005, Focus Media Advertising Agency has generated revenue by selling time slots on our advertising network and pays a dissemination fee to Focus Media Advertisement and its certain subsidiaries, which places advertisements for Focus Media Advertising Agency's clients on our network. Finally, Focus Media Agency also license technology used in our business operations from Focus Media Digital in exchange for license fees paid to Focus Media Digital. As a result of Focus Media Agency's amortization of the license fee paid to Focus Media Digital, it incurred a charge to earnings of approximately \$23 million in 2005. See "Related Party Transactions" for further information on these transactions and contractual agreements. Although these transactions were eliminated upon consolidation as transactions among members of our consolidated companies for financial accounting purposes, they did have the affect of reducing our total income tax expense and increasing our after tax net income in 2005. As a result of these transactions, our effective tax rates were 2.8% in 2005.

In December 2005, we established New Focus Media Advertisement which has received tax-exempt approval for 2006 and 2007. We further incorporated New Focus Media Agency and Focus Media Defeng Advertisement in 2006 which also received tax-exempt approval for 2006 and 2007. Besides, New Structure Advertisement, which incorporated in October 2005, also received its tax-exempt approval for 2006 and 2007. Focus Media Wireless, as a high-tech company incorporated in Zhonguancun District, Beijing, China, is exempted from income tax from 2006 to 2008, plus a 50% reduction holiday from 2009 to 2011.

In December 2005, Focus Media Digital sold all of its flat-panel display equipment to New Focus Media Advertisement at fair market value and Focus Media Digital sold all of its technology to New Focus Media Advertisement in January 2006 at a fixed fee. As of January 2006, New Focus Media Advertisement generates revenue by selling time slots on our advertising network and pays a dissemination fee to Focus Media Advertisement and its certain subsidiaries, which places advertisements for New Focus Media Advertisement's clients on our network. Both New Focus Media Agency and Focus Media Defeng Advertisement act as advertising agencies for New Focus Media Advertisement and receives agency fees and retains a reasonable profit generated from their various operating activities. The reasonable profit is determined according to function and risk analysis for each of our major subsidiaries and VIEs and the comparable market profit rates we obtained from time to time. While these transactions are eliminated upon consolidation as transactions among members of our consolidated companies for financial accounting purposes,

they did have the affect of reducing our total income tax expenses and increasing our after tax net income. As a result, our effective tax rate was 1.3% and 7.0% for 2006 and 2007, respectively. See "Related Party Transactions" for further information on these transactions and contractual agreements. In addition, upon expiration of these tax exemptions, we will consider available options, in accordance with applicable law, that would enable us to qualify for further tax exemptions, if any, to the extent they are then available to us.

Under PRC law, arrangements and transactions among related parties may be subject to audit or challenge by the PRC tax authorities. If any of the transactions described above are found not to be on an arm's-length basis, or to result in an unreasonable reduction in tax under PRC law, the PRC tax authorities have the authority to disallow our tax savings, adjust the profits and losses of our respective PRC entities and assess late-payment interest and penalties. A finding by the PRC tax authorities that we are ineligible for the tax savings we achieved in 2005, 2006 and 2007, or that Focus Media Digital, Focus Media Advertising Agency, New Focus Media Advertisement, New Structure Advertisement, or Framedia Advertisement are ineligible for their tax exemptions, would substantially increase our taxes owed and reduce our net income and the value of your investment. As a result of this risk, you should evaluate our results of operations and financial condition without regard to these tax savings. See "Risk Factors — Risks Relating to Regulation of Our Business and to Our Structure — Contractual arrangements we have entered into among our subsidiaries and affiliated entities may be subject to scrutiny by the PRC tax authorities and a finding that we owe additional taxes or are ineligible for our tax exemption, or both, could substantially increase our taxes owed, and reduce our net income and the value of your investment."

On March 16, 2007, the National People's Congress of China enacted a new Enterprise Income Tax Law, which took effect beginning January 1, 2008. On December 6, 2007, the State Council approved and promulgated the Implementation Rules of the PRC Enterprise Income Tax Law, which took effect simultaneously with the new tax law. Under the new tax law, domestically-owned enterprises and foreign-invested enterprises are subject to a uniform tax rate of 25%. The new tax law provides a five-year transition period starting from its effective date for certain qualifying enterprises which were established before the promulgation date of the new tax law and which were entitled to a preferential tax rate under the then effective tax laws or regulations. In accordance with the Notice of the State Council Concerning Implementation of Transitional Rules for Enterprise Income Tax Incentives, tax rate of such qualifying enterprises will gradually transition to the uniform tax rate within such transition period. Most of our PRC subsidiaries or VIEs' tax holiday will expire after 2007.

While the new tax law equalizes the tax rates for FIEs and domestically-owned enterprises, preferential tax treatment would continue to be given to companies in certain encouraged sectors and to those classified as high technology companies enjoying special support from the state. Following the implementation of the new tax law, our effective tax rate may increase, unless we are otherwise eligible for preferential treatment and obtain approvals on preferential treatment from tax bureaus. Under the enterprise income tax law prior to January 1, 2008, to qualify as a "new and high technology enterprise" for PRC enterprise income tax purposes, a business entity generally must meet certain financial and non-financial criteria, including, but not limited to:

- the technology researched and developed by the company falling into the high technology category promulgated by PRC government;
- a minimum level of revenue generated from high technology related sales or services as a percentage of total revenue;

- a minimum number of employees engaged in research and development;
- a minimum requirement for the education degree of employees; and
- a minimum level of research and development expenses as a percentage of total revenue.

If any of our PRC entities ceases to qualify for their current preferential enterprise income tax rates, we will consider options that may be available at the time that would enable the entities to qualify for other preferential tax treatment. To the extent we are unable to offset the expiration or the inability to obtain preferential tax treatment with new tax exemptions, tax incentives or other tax benefits, our effective tax rate will increase. The amount of income tax payable by our PRC subsidiaries in the future will depend on various factors, including, among other things, the results of operations and taxable income of, and the statutory tax rate applicable to our PRC entities.

The PRC central or provincial government could eliminate or reduce the preferential tax treatment in the future, which, as a result, would lead to an increase in our effective tax rate. Upon the eventual lapse of the preferential enterprise income tax rates of these subsidiaries, our effective tax rate will increase in the future.

Most of the Company's subsidiaries and VIEs are expected to transition from 33% to 25% starting from January 1, 2008. Those that currently enjoy a lower tax rate of 15% as a high and new technology company will transition to the uniform tax rate of 25% from 2008 unless the company obtains the "new and high technology enterprise" status under the new tax law.

RECENTLY ISSUED ACCOUNTING STANDARDS

In September 2006, the FASB issued SFAS No. 157, "*Fair Value Measurement*" ("SFAS 157"), which defines fair value, establishes a framework for measuring fair value and expands disclosures about assets and liabilities measured at fair value. The Company will be required to adopt SFAS 157 for fiscal year beginning January 1, 2008. The Company is currently evaluating the impact, if any, of SFAS 157 on its financial position, results of operations and cash flows.

In February 2007, the FASB issued SFAS No. 159, "*The Fair Value Option for Financial Assets and Financial Liabilities*" ("SFAS 159"). SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact, if any, of SFAS 159 on its financial position, results of operations and cash flows.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), "*Business Combinations*" ("SFAS 141R"), which replaces SFAS No. 141, "*Business Combination*." The statement retains the purchase method of accounting for acquisitions, but requires a number of changes, including changes in the way assets and liabilities are recognized in the purchase accounting. It also changes the recognition of assets acquired and liabilities assumed arising from contingencies, requires the capitalization of in-process research and development at fair value, and requires the expensing of acquisition-related costs as incurred. SFAS 141R is effective for fiscal years and interim periods within those fiscal years beginning on or after December 15, 2008 and will apply prospectively to business combinations completed on or after that date.

The Company is currently evaluating the impact, if any, of SFAS 141R on its financial position, results of operations and cash flows.

In December 2007, the FASB issued SFAS No. 160, "*Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB 51*" ("SFAS 160"), which changes the accounting and reporting for minority interests. Minority interests will be recharacterized as noncontrolling interests and will be reported as a component of equity separate from the parent's equity, and purchases or sales of equity interests that do not result in a change in control will be accounted for as equity transactions. In addition, net income attributable to the noncontrolling interest will be included in consolidated net income on the face of the income statement and, upon a loss of control, the interest sold, as well as any interest retained, will be recorded at fair value with any gain or loss recognized in earnings. SFAS 160 is effective for fiscal years and interim periods within those fiscal years beginning on or after December 15, 2008 and will apply prospectively, except for the presentation and disclosure requirements, which will apply retrospectively. The Company is currently evaluating the impact, if any, of SFAS 160 on its financial positions, results of operations and cash flows.

ACQUISITIONS

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

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

The financial statements of:

- Allyes Information Technology Company Limited, for the year ended, and as of, December 31, 2006;
- Target Media Holdings, for the periods ended, and as of, December 31, 2004 and 2005; and
- Infoachieve Limited, for the periods ended, and as of, December 31, 2003, 2004 and 2005

are available in our registration statement on Form F-1 (File No. 333-146913) and the financial statements of:

- Perfect Media Holding Ltd. for the periods ended, and as of, December 31, 2003 and September 30, 2004;
- Focus Media Changsha Holding Ltd., Focus Media Qingdao Holding Ltd. and Focus Media Dalian Holding Ltd. for the period ended, and as of, October 31, 2004; and
- Capital Beyond Limited for the periods ended, and as of, December 31, 2004 and March 31, 2005, respectively

are available in our registration statement on Form F-1 (File No. 333-134714).

In 2007, we also made a number of smaller acquisitions, which, due to the smaller size, does not necessitate our providing their financial statements on a stand alone basis. Among these smaller acquisitions, we acquired eight regional distributors in our digital out-of-home network, five local poster frame companies, ten companies in the mobile advertising sector and six Internet advertising companies (excluding Allyes). No one of these acquisitions was material to our business.

QUARTERLY RESULTS OF OPERATION

The following table presents unaudited consolidated quarterly financial data by amount for each of the eight quarters in the period from March 31, 2006 to December 31, 2007. You should read the following table in conjunction with our audited consolidated financial statements and related notes included elsewhere in this Form 20-F. We have prepared the unaudited consolidated quarterly financial information on substantially the same basis as our audited consolidated financial statements and using information derived from our unaudited consolidated financial statements which are not included in this Form 20-F. The following information contains normal recurring adjustments which are, in the opinion of our management, necessary for a fair presentation of the results for such unaudited period. Our operating results for any quarter are not necessarily indicative of results that may be expected for any future period.

Consolidated Statement of Operations Data	For the three months ended							
	March 31, 2006	June 30, 2006	September 30, 2006	December 31, 2006	March 31, 2007	June 30, 2007	September 30, 2007	December 31, 2007
	(in thousands of U.S. dollars)							
Net revenues:								
Digital out-of-home								
Commercial location (1)	\$ 21,380	\$ 30,438	\$ 38,519	\$ 41,724	\$ 31,644	\$ 51,060	\$ 64,589	\$ 73,390
In-store network (1)	5,294	6,538	7,239	7,836	6,638	7,244	7,087	6,475
Poster frame network (1)	6,067	9,778	11,284	13,775	12,669	18,548	23,063	31,192
Mobile handset advertising (1)	—	3,076	3,516	3,509	6,008	10,882	14,025	15,994
Internet advertising services (1)	—	—	—	—	—	25,236	42,511	57,191
Total advertising service revenue	32,741	49,830	60,558	66,844	56,959	112,970	151,275	184,242
Other revenue	457	233	90	1,152	381	305	117	310
Total revenues	33,198	50,063	60,648	67,996	57,340	113,275	151,392	184,552
Cost of revenues:								
Digital out-of-home								
Commercial location network	8,226	11,487	11,404	11,719	12,898	17,868	22,825	26,034
In-store network	3,973	4,394	4,616	5,123	5,027	5,187	5,832	7,456
Poster frame network	2,792	3,222	3,756	3,851	4,746	5,265	6,656	11,419
Mobile handset advertising network	—	2,405	2,219	1,428	2,754	4,569	6,145	9,725
Internet advertising services network	—	—	—	—	—	18,405	32,718	42,115
Advertising service cost:	14,991	21,508	21,995	22,121	25,425	51,294	74,176	96,749
Other cost	232	80	80	373	165	138	121	373
Total cost of revenues	15,223	21,588	22,075	22,494	25,590	51,432	74,297	97,122
Gross profit	17,975	28,475	38,573	45,502	31,750	61,843	77,095	87,430
Operating expenses:								
General and administrative	4,395	6,298	5,956	9,074	8,683	11,646	12,095	17,032
Selling and marketing	4,407	5,376	6,784	9,195	9,886	13,154	19,081	27,810
Other operating income	(20)	(137)	(5)	(1,176)	(1,263)	(1,121)	(1,203)	(1,537)
Total operating expenses	8,782	11,537	12,735	17,093	17,306	23,679	29,973	43,305
Income from operations	9,193	16,938	25,838	28,409	14,444	38,164	47,122	44,125
Interest income (expenses), net	888	605	1,070	1,692	2,693	1,934	1,595	3,530
Other income (expenses), net	(71)	(408)	(175)	367	92	(52)	5	2,523
Income before income taxes and minority interest	10,010	17,135	26,733	30,468	17,229	40,046	48,722	50,178
Total income taxes	(617)	(373)	317	(371)	(968)	(2,318)	(2,109)	(5,649)
Minority interests	40	(91)	(45)	(9)	31	(13)	—	(713)
Net income attributed to shareholders	\$ 9,433	\$ 16,671	\$ 27,005	\$ 30,088	\$ 16,292	\$ 37,715	\$ 46,613	\$ 43,816

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

	For the three months ended							
	March 31, 2006	June 30, 2006	September 30, 2006	December 31, 2006	March 31, 2007	June 30, 2007	September 30, 2007	December 31, 2007
	(in thousands of U.S. dollars)							
Sales taxes:								
Commercial location network	\$ 2,082	\$ 2,968	\$ 4,062	\$ 4,529	\$ 3,274	\$ 4,308	\$ 5,584	\$ 6,738
In-store network	524	697	763	819	688	754	726	675
Poster frame network	591	958	1,102	1,338	1,185	1,799	2,058	2,887
Mobile handset advertising network	—	289	285	205	12	386	602	612
Internet advertising services network	—	—	—	—	—	1,182	1,723	2,127
Total	\$ 3,197	\$ 4,912	\$ 6,212	\$ 6,891	\$ 5,159	\$ 8,429	\$ 10,693	\$ 13,039

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

Consolidated Statement of Operations Data	For the three months ended							
	March 31, 2006	June 30, 2006	September 30, 2006	December 31, 2006	March 31, 2007	June 30, 2007	September 30, 2007	December 31, 2007
	(in thousands of U.S. dollars)							
Digital out-of-home								
Commercial location network	64.4%	60.8%	63.6%	61.4%	55.2%	45.1%	42.7%	39.8%
In-store network	15.9%	13.1%	11.9%	11.5%	11.6%	6.4%	4.7%	3.5%
Poster frame network	18.3%	19.5%	18.6%	20.2%	22.1%	16.4%	15.2%	16.8%
Mobile handset advertising network	—	6.1%	5.8%	5.2%	10.5%	9.6%	9.3%	8.7%
Internet advertising services network	—	—	—	—	—	22.3%	28.0%	31.0%
Other revenues	1.4%	0.5%	0.1%	1.7%	0.6%	0.2%	0.1%	0.2%
Total revenues	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of revenues:								
Digital out-of-home								
Commercial location network	24.8%	22.9%	18.8%	17.2%	22.5%	15.8%	15.1%	14.1%
In-store network	12.0%	8.8%	7.6%	7.5%	8.8%	4.6%	3.9%	4.0%
Poster frame network	8.4%	6.4%	6.2%	5.7%	8.3%	4.6%	4.4%	6.2%
Mobile Handset Advertising Network	—	4.8%	3.7%	2.1%	4.8%	4.1%	4.1%	5.3%
Internet advertising services network	—	—	—	—	—	16.2%	21.5%	22.8%
Other costs	0.7%	0.2%	0.1%	0.5%	0.3%	0.1%	0.1%	0.2%
Total cost of revenues	45.9%	43.1%	36.4%	33.0%	44.7%	45.4%	49.1%	52.6%
Gross profit	54.1%	56.9%	63.6%	67.0%	55.3%	54.6%	50.9%	47.4%
Operating expenses:								
General and administrative	13.2%	12.6%	9.8%	13.3%	15.1%	10.3%	8.0%	9.2%
Selling and marketing	13.3%	10.7%	11.2%	13.5%	17.2%	11.6%	12.6%	15.1%
Other operating income	(0.1)%	(0.3)%	(0.0)%	(1.7)%	(2.2)%	(1.0)%	(0.8)%	(0.8)%
Total operating expenses	26.4%	23.0%	21.0%	25.1%	30.1%	20.9%	19.8%	23.5%

Consolidated Statement of Operations Data	For the three months ended							
	March 31, 2006	June 30, 2006	September 30, 2006	December 31, 2006	March 31, 2007	June 30, 2007	September 30, 2007	December 31, 2007
	(in thousands of U.S. dollars)							
Income from operations	27.7%	33.9%	42.6%	41.9%	25.2%	33.7%	31.1%	23.9%
Interest income (expenses), net	2.7%	1.2%	1.8%	2.5%	4.7%	1.7%	1.1%	1.9%
Other income (expenses), net	(0.2)%	(0.8)%	(0.3)%	0.5%	0.2%	0.0%	0.0%	1.4%
Income before income taxes and minority interest	30.2%	34.3%	44.1%	44.9%	30.1%	35.4%	32.2%	27.2%
Total income taxes	(1.9)%	(0.7)%	0.5%	(0.5)%	(1.7)%	(2.0)%	(1.4)%	(3.1)%
Minority interest	0.1%	(0.2)%	(0.1)%	0.0%	0.1%	0.0%	—	(0.4)%
Net income attributable to shareholders	28.4%	33.4%	44.5%	44.4%	28.5%	33.4%	30.8%	23.7%

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

	For the three months ended							
	March 31, 2006	June 30, 2006	September 30, 2006	December 31, 2006	March 31, 2007	June 30, 2007	September 30, 2007	December 31, 2007
	(in thousands of U.S. dollars)							
Sales taxes:								
Commercial location network	8.9%	8.9%	9.5%	9.8%	9.4%	7.8%	8.0%	8.4%
In-store network	9.0%	9.6%	9.5%	9.5%	9.4%	9.4%	9.3%	9.4%
Poster frame network	8.9%	8.9%	8.9%	8.9%	8.6%	8.8%	8.2%	8.5%
Mobile handset advertising network	—	8.6%	7.5%	5.5%	0.2%	3.4%	4.1%	3.7%
Internet advertising services network	—	—	—	—	—	4.5%	3.9%	3.6%
Total	8.9%	9.0%	9.3%	9.3%	8.3%	6.9%	6.6%	6.6%

Certain quarterly financial information related to each fiscal quarters of the fiscal year ended December 31, 2006 have been restated and differ from previously announced information in the Forms 6-K furnished to the SEC on May 26, 2006, August 21, 2006, November 20, 2006 and February 26, 2007 as a result of the following:

Advertising agency rebates for each fiscal quarter of the fiscal year ended December 31, 2006. We classified \$88,537, \$624,365, \$425,807 and \$257,205 advertising agency rebates, respectively, as selling expenses rather than as a reduction of revenues in the quarter ended March 31, June 30, September 30 and December 31, 2007, respectively. This adjustment resulted in an increase in the originally reported gross margin and a decrease to reported selling expenses from our filings on Form 6-K dated May 26, 2006, August 21, 2006, November 20, 2006 and February 26, 2007, respectively. The foregoing restated amounts did not affect net income or earnings per share.

A. OPERATING RESULTS

Results of Operations

Year Ended December 31, 2007 Compared to Year Ended December 31, 2006

Total Revenues. Our total revenues increased substantially from \$211.9 million in 2006 to \$506.6 million in 2007 due primarily to an increase in our advertising service revenue.

Digital Out-of-home Advertising Network. Advertising service revenue from our digital out-of-home advertising network, which includes our commercial location, in-store and poster frame networks, increased 66.9% from \$199.9 million in 2006 to \$333.6 million in 2007, primarily due to a 67.1% increase in revenues from our commercial location network and an approximately two-fold increase in revenues from our poster frame network.

- *Commercial location network.* Advertising service revenue from our commercial location network increased 67.1% from \$132.1 million in 2006 to \$220.7 million in 2007. The increase in advertising service revenue is attributable to: (i) continued acceptance of our media by an increasing number of advertising clients; (ii) the steady expansion of our media network, including the number of LCD displays and LED billboards on our network; and (iii) the sale of tailored advertising packages including through the seven specialized channels on our commercial location network and by targeting advertising campaigns on specific lists of buildings requested by advertising clients.
- *In-store network.* Advertising service revenue from our in-store network, increased 2.0% to \$27.4 million in 2007 from \$26.9 million in 2006. This increase was attributable to steady sales of advertising services on the network as it continued to increase in size. Specifically, the number of displays installed in the in-store network amounted to 49,452 as of December 31, 2007, up from 38,742 as of December 31, 2006, offset in part by relatively strong competition in this area, mainly from CGEN Digital Media Company Limited, which we subsequently acquired in January 2008. The number of hypermarkets in our networks, from which we derive most of our in-store network revenue, increased from 1,100 as of December 31, 2006 to 1,398 as of December 31, 2007.
- *Poster frame network.* Advertising service revenue from our poster frame network more than doubled to \$85.5 million in 2007 compared to \$40.9 million in 2006. This increase in revenue is primarily attributable to robust sales as the total number of frames installed more than doubled from 95,878 as of December 31, 2006 to 190,468 as of December 31, 2007, including 10,819 digital frames which we introduced in 2007.

Mobile Handset Advertising Network. Advertising service revenue from our mobile handset advertising network increased significantly from \$10.1 million in 2006 to \$46.9 million in 2007 due to the increasing acceptance by advertisers of mobile handset advertising as telecommunications services and mobile handset ownership continues to grow in China. Starting in April 1, 2008, we expect our revenues from our mobile handset advertising business to decrease as we no longer engage in "push" campaigns that involve sending messages to consumers without their consent. We now engage only in "pull" advertising campaigns, or sending messages to consumers after receiving their explicit consent.

Internet Advertising Services Network. We commenced providing Internet advertising services and software solutions in March 2007 upon our acquisition of Allyes. Advertising service revenue from our Internet advertising services network totaled \$124.9 million in 2007 attributable primarily to sales of our digital marketing services, sales of our performance-based advertising service 'SmartTrade' and sales of our Internet advertising software package 'AdForward'.

Cost of Revenues. Our cost of revenues increased significantly from \$81.4 million in 2006 to \$248.4 million in 2007 due to increases in costs of expanding and maintaining our digital out-of-home advertising networks and mobile handset advertising network as well as from costs related to our Internet advertising services network, which we began to incur in April 2007 upon the acquisition of Allyes.

Digital out-of-home advertising costs. Cost of revenues associated with our digital out-of-home advertising networks increased 75.9% from \$74.6 million in 2006 to \$131.2 million in 2007. This increase is primarily attributable to increased costs associated with the expansion of our commercial location network and an increase in the number of LED billboards.

- *Net advertising service cost — commercial location network.* Our net advertising service cost for our commercial location network increased 85.9% from \$42.8 million in 2006 to \$79.6 million in 2007. This increase was due to (i) the substantial increase in our advertising service business on our commercial location network between these two periods including substantial increases in our location costs due to a substantial increase in the number of commercial locations where we entered into display placement agreements, including those we operate in our outdoor billboard business; (ii) an increase in flat-panel display depreciation costs as a result of an increase in the number of flat-panel displays we own and operate directly from 80,623 as of December 31, 2006 to 107,533 as of December 31, 2007; (iii) our acquisition of 8 regional distributors during this period, (iv) an increase in other direct costs associated with maintaining the network and (v) payments associated with our lease of curbside LED billboards and screen time at movie theaters.
- *Net advertising service cost — in-store network.* We incurred \$23.5 million in net advertising service cost for our in-store network in 2007 compared to \$18.1 million in 2006, consisting of location costs and depreciation costs relating to the installation and maintenance of our in-store network.
- *Net advertising service cost — poster frame network.* Our net advertising service cost for our poster frame network increased significantly to \$28.1 million in 2007 compared to \$13.6 million in 2006, attributable to location costs and depreciation costs relating to the installation and maintenance of poster frames on our network as we significantly increased the number of traditional poster frames on our network and, in June 2007, began to incur location costs associated with our digital poster frames.
- *Net advertising service cost — mobile handset advertising network.* Net advertising service cost associated with our mobile handset advertising network increased significantly from \$6.1 million in 2006 to \$23.2 million in 2007. These costs consist primarily of message costs charged by mobile operators.

- *Net advertising service cost — Internet advertising service network.* We incurred net advertising service costs of \$93.2 million in 2007. These costs consist primarily of advertising space leasing costs charged by gateway websites.

Gross Profit. As a result of the foregoing, our gross profit increased by 97.8% from \$130.5 million in 2006 to \$258.1 million in 2007. Our overall gross margin decreased during the same period from 61.6% to 51.0% primarily due to the addition of our Internet advertising services network in the first half of 2007, which has lower margins and higher intangible amortization expenses resulting from acquisitions in our poster frame, mobile and Internet advertising businesses. Our gross margins for each of our businesses during these periods are presented in the following table:

	Year ended December 31,	
	2006	2007
	US\$'000	US\$'000
Gross profit		
Commercial location network	\$ 89,225	\$ 141,058
In-store network	8,801	3,942
Poster frame network	27,283	57,386
<i>Digital out-of-home</i>	125,309	202,386
<i>Mobile Handset Advertising Network</i>	4,049	23,716
<i>Internet Advertising</i>	—	31,700
<i>Others</i>	1,167	316
<i>Total</i>	\$ 130,525	\$ 258,118
Gross margin		
Commercial location network	67.6%	63.9%
In-store network	32.7%	14.4%
Poster frame network	66.7%	67.1%
<i>Digital out-of-home</i>	62.7%	60.7%
<i>Mobile Handset Advertising Network</i>	40.1%	50.6%
<i>Internet Advertising</i>	—	25.4%
<i>Others</i>	60.4%	28.4%
<i>Total</i>	61.6%	51.0%

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

Operating Expenses. Our operating expenses increased significantly from \$50.1 million in 2006 to \$114.3 million in 2007. Operating expenses remained relatively consistent as a percentage of revenues, 23.7% in 2006 compared to 22.6% in 2007. The increase in operating expenses was primarily due to increases in our selling and marketing expenses and in our general and administrative expenses associated with the growth of our business, and in share-based compensation expenses under SFAS 123-R, as well as the amortization of acquisition related intangible assets.

- *General and Administrative.* General and administrative expenses increased substantially from \$25.7 million in 2006 to \$49.5 million in 2007 mainly due to an increase in the size of our administrative staff and corresponding increases in expenses for salary and benefits as our operations have grown, increases in share-based compensation expense and increases in costs associated with being a publicly listed company.
- *Selling and Marketing.* Selling and marketing expenses increased substantially from \$25.8 million in 2006 to \$69.9 million in 2007 due to increases in marketing and promotional expenses by our sales force, and in salary and benefits associated with the expansion of our sales force as well as share-based compensation expenses and amortization of acquisition related intangible assets.

Other operating income. Other operating income represented the government subsidy received.

Income from Operations. As a result of the foregoing, we had income from operations of \$143.9 million in 2007 compared to \$80.4 million in 2006.

Income Before Income Taxes and Minority Interest. Income before income taxes and minority interest was \$84.3 million in 2006 compared to \$156.2 million in 2007, which included interest income and other income (expenses).

- *Interest Income.* Interest income increased from \$4.5 million in 2006 to \$9.8 million in 2007. This interest income was the result of a significant increase in our cash and cash equivalents balances resulting from our follow-on public offerings.
- *Income Taxes.* Our income taxes were \$1.0 million in 2006 with an effective tax rate of 1.2% compared to \$11.0 million in 2007 with an effective tax rate of 7.1%.

Net Income. As a result of the foregoing, our net income increased 73.6% from \$83.2 million in 2006 to \$144.4 million in 2007.

Year Ended December 31, 2006 Compared to Year Ended December 31, 2005

Total Revenues. Our total revenues increased substantially from \$68.2 million in 2005 to \$211.9 million in 2006 due to an increase in our advertising service revenue.

Our total advertising service revenue increased significantly from \$66.9 million in 2005 to \$210.0 million in 2006, including the advertising service revenues derived from our poster frame network amounting to \$40.9 million and \$10.1 million from mobile handset advertising network primarily as a result of our acquisitions in 2006.

Digital Out-of-home Advertising Network. Advertising service revenue from our digital out-of-home advertising network increased significantly from \$66.9 million in 2005 to \$199.9 million in 2006, primarily due to rapid growth in revenues from our commercial location network as well as from the addition of revenues from our poster frame network.

- *Commercial location network.* Advertising service revenue from our commercial location network increased significantly from \$61.4 million in 2005 to \$132.1 million, including \$15.4 million to related parties in 2006. The increase in advertising service revenue for our commercial location network is attributable to:
 - An increase in the number of flat-panel displays on our network from 48,226 as of December 31, 2005 to 85,460 as of December 31, 2006 including our regional distributors;
 - Our network reach increased from 58 cities as of December 31, 2005, including 26 cities directly operated by our company and 32 cities operated by our regional distributors, to 91 cities as of December 31, 2006, including 51 cities directly operated by our company and 40 cities operated by our regional distributors;
 - We gained an additional seven minutes of advertising cycle time from each of the regional distributors we acquired between January 1, 2006 and December 31, 2006; and
 - The increase in the average selling price was largely due to increased demand in our Tier II cities, while the average selling price of our advertising services in our Tier I cities increased between these two periods.
- *In-store network.* Advertising service revenue from our in-store network, which commenced operations in April 2005, totaled \$26.9 million in 2006. We expect the contribution to our total revenues from our in-store network to increase in the near future.
- *Poster frame network.* We generated \$40.9 million in net revenues from our poster frame network in 2006. We commenced operation of our poster frame network in 2006 following our acquisition of Framedia.

Mobile handset advertising network. We generated \$10.1 million in net revenues from our mobile handset advertising network in 2006. We commenced operations of this network in May 2006.

Other revenues increased from \$1.3 million in 2005 to \$1.9 million in 2006, primarily from license fees that we received from our overseas franchise companies. By the end of 2006, we granted licenses to approximately 10 overseas franchise companies using the Focus Media brand in operating local LCD advertising networks in India, Malaysia, Indonesia, the Philippines, the Gulf Cooperation Council region (including Saudi Arabia), Hong Kong, Taiwan and Singapore.

Cost of Revenues. Our cost of revenues increased significantly from \$26.7 million in 2005 to \$81.4 million in 2006 due to increases in our net advertising service cost for our commercial location network, our in-store network and two new business lines: our poster frame network and mobile handset advertising network.

Net Advertising Service Cost — Digital Out-of-home Advertising Network. Our net advertising service cost for our digital out-of-home advertising network increased significantly from \$25.7 million in 2005 to \$74.6 million in 2006, primarily as a result of substantial growth in the size of our commercial location network and in-store network as well as costs associated with our poster frame network following our acquisition of Framedia.

- *Net advertising service cost — commercial location network.* Our net advertising service cost for our commercial location network increased substantially from \$18.6 million in 2005 to \$42.8 million in 2006. This increase was due to the substantial increase in our advertising service business on our commercial location network between these two periods. Our location costs increased substantially from \$11.3 million in 2005 to \$25.8 million in 2006 due to a substantial increase in the number of commercial locations where we entered into display placement agreements. Our rental fees increased as a percentage of total revenues between these two periods as a result of (1) a significant increase in the number of locations in our commercial location network, including those previously operated by Target Media; and (2) average increased rental payments for the renewal of display placement agreements in the more desirable locations on our commercial location network. Flat-panel display depreciation costs increased from \$3.4 million in 2005 to \$9.2 million in 2006, as a result of an increase in the number of flat-panel displays we own and operate directly from 45,049 as of December 31, 2005 to 80,623 as of December 31, 2006 and to our acquisition of Target Media and 3 regional distributors during this period. Other cost of revenues related to net advertising service cost increased from \$3.2 million in 2005 to \$6.1 million in 2006 as a result of (1) an increase in number of personnel responsible for monitoring the network following the acquisition of Target Media; (2) an increase in the volume of CF cards we purchased even as the per-unit cost of CF cards decreased and (3) an increase in salary and benefit expenses for personnel responsible for location relations and display placement agreements with landlords and property managers and for maintaining and monitoring our network.
- *Net advertising service cost — in-store network.* We began incurring net advertising service cost relating to our in-store network in April 2005 when we launched our in-store network. We incurred \$18.1 million in net advertising service cost for our in-store network in 2006, consisting of location costs of \$12.7 million and depreciation costs relating to the installation and maintenance of our in-store network amounting to \$3.5 million.
- *Net advertising service cost — poster frame network.* We began incurring net advertising service cost relating to our poster frame network in 2006 following our acquisition of Framedia. We incurred \$13.6 million in net advertising service cost for our poster frame network in 2006, consisting primarily of frame costs and depreciation costs relating to the installation and maintenance of the poster frames.
- *Net advertising service cost — mobile handset advertising network.* We began incurring net advertising service cost relating to our mobile handset advertising network in 2006 following our acquisition of Dotad, now known as Focus Media Wireless. We incurred \$6.1 million in net advertising service cost for our mobile handset advertising network in 2006, primarily consisting of message costs charged by mobile network providers
- *Other cost.* We incurred net advertising equipment costs of \$975,747 in 2005 compared to \$764,959 in 2006, which decrease reflects the fact that we have acquired many of our fastest-growing regional distributors. We expect net advertising equipment costs to continue to decrease.

Gross Profit. As a result of the foregoing, our gross profit increased from \$41.5 million in 2005 to \$130.5 million in 2006 and our overall gross margin increased during the same period from 60.8% to 61.6%. The increase in our gross margin was due to a combination of the continuous increase in the sell-out rate and cost optimization.

Operating Expenses. Our operating expenses increased significantly from \$18.7 million in 2005 to \$50.1 million in 2006. This increase was primarily due to increases in our selling and marketing expenses and in our general and administrative expenses associated with the growth of our business.

- *General and Administrative.* General and administrative expenses increased substantially from \$9.1 million in 2005 to \$25.7 million in 2006 mainly due to an increase in the size of our administrative staff and corresponding increases in expenses for salary and benefits as well as accounting and administrative costs related to being a public company. In addition, in connection with the options granted to our directors, employees and consultants since July 2004, we recorded stock-based compensation of \$6.1 million in 2006 following the adoption of SFAS No. 123 (revised 2005), "Share-Based Payment".
- *Selling and Marketing.* Selling and marketing expenses increased substantially from \$9.6 million in 2005 to \$25.8 million in 2006 due to increases in marketing and promotional expenses by our sales force and in salary and benefits associated with the expansion of our sales force.

Income from Operations. As a result of the foregoing, we had income from operations of \$22.8 million in 2005 compared to \$80.4 million in 2006.

Income Before Income Taxes and Minority Interest. Income before income taxes and minority interest was \$24.4 million in 2005 compared to \$84.3 million in 2006.

- *Interest Income, net.* Interest income, net of interest expenses increased from 1.8 million in 2005 to \$4.3 million in 2006. This interest income was the result of a significant increase in our cash and cash equivalents balances resulting from cash payments collected from our advertising operations and proceeds from our follow-on offerings.
- *Other Expense, net.* We recorded net other expense of \$161,148 in 2005 compared to other income of \$287,539, in 2006.
- *Income Taxes.* Our income taxes were \$694,453 in 2005 compared to \$1,043,538 in 2006.
- *Minority Interests.* We had minority interests expense of \$144,433 and \$104,773 in 2005 and 2006, respectively, in connection with the pro rata income attributable to minority shareholders of our subsidiaries.

Net Income. As a result of the foregoing, we recorded net income of \$83.2 million in 2006 compared to net income of \$23.5 million in 2005.

B. LIQUIDITY AND CAPITAL RESOURCES.

Liquidity and Capital Resources

Cash Flows and Working Capital

To date, we have financed our operations primarily through cash generated from operating activities and sales of equity in private and public transactions. As of December 31, 2007, we had approximately \$450.4 million in cash and cash equivalents, of which we paid \$168.4 million to the former shareholder of CGEN on January 1, 2008 in connection with our acquisition of CGEN. As we have expanded our network, entered into a large number of display placement agreements, increased our acquisition of regional distributors and related businesses, and made strategic acquisitions, our cash needs for such acquisitions, the purchase of flat-panel displays, payment of our location and maintenance costs and employee costs increased significantly and accounted for the net cash used in investing activities. Our cash and cash equivalents primarily consist of cash on hand, liquid investments with original maturities of three months or less that are deposited with banks and other financial institutions. We generally deposit our excess cash in interest bearing bank accounts. Although we consolidate the results of Focus Media Advertisement and its subsidiaries in our consolidated financial statements and we can utilize their cash and cash equivalents in our operations through Focus Media Advertisement and its subsidiaries, we do not have direct access to the cash and cash equivalents or future earnings of Focus Media Advertisement. However, these cash balances can be utilized by us for our normal operations pursuant to our agreements with Focus Media Advertisement and its subsidiaries that provide us with effective control over Focus Media Advertisement and its subsidiaries. In addition, we have access to the cash flows of Focus Media Advertisement and its subsidiaries through contractual arrangements with our subsidiaries Focus Media Technology and Focus Media Digital, which provide technical and other services in exchange for fees. See "Item 7.B Major Shareholders and Related Party Transactions — Related Party Transactions — Agreements Among Us, Focus Media Technology, Focus Media Digital, New Focus Media Advertisement, Focus Media Advertisement and Its Subsidiaries".

We expect to require cash in order to fund our ongoing business needs, particularly the location costs connected with the placement of our television displays, to fund the ongoing expansion of our network and for payments in connection with our acquisitions. Other possible cash needs may include the upgrading of technology on our network as well as any payment of claims that could be made against us. We have not encountered any difficulties in meeting our current cash needs.

The following table shows our cash flows with respect to operating activities, investing activities and financing activities in 2005, 2006 and 2007:

	For the year ended December 31,		
	2005	2006	2007
	(in thousands of U.S. dollars)		
Net cash provided by operating activities	\$ 11,269	\$ 93,355	\$ 166,960
Net cash (used) in investing activities	(117,667)	(121,994)	(342,881)
Net cash provided by financing activities	119,168	153,521	442,976
Effect of exchange rate changes	1,214	3,076	18,750
Net increase in cash and cash equivalent	13,984	127,958	285,805

We had cash provided by operating activities of \$167.0 million in 2007, a 75.5% increase compared to \$95.1 million in 2006. This is in line with the 73.6% increase in our net income compared to 2006. For detail reconciliation from our net income to net cash provided by operating activities, please refer to consolidated cashflow statements contained in ITEM 18.

We had net cash used in investing activities of \$342.9 million in 2007, primarily consists the followings: (1) investment in available-for-sale equity securities of \$88.2 million; (2) purchase consideration paid and deposits paid to acquire subsidiaries aggregating \$165.1 million, primarily including Allyes, CGEN; (3) capital expenditure of \$55.8 million; and (4) loan issued to CGEN of \$30 million. We had net cash used in investing activities of \$123.8 million in 2006, primarily in connection with the acquisition of companies, including Target Media and Focus Media Wireless, subsidiaries and regional distributors, purchase of equipment used to expand our networks, and rental deposits paid for locations on our out-of-home television, poster frame and outdoor LED networks. Our acquisition of Framedia involved our payment of \$39.6 million in cash and issuance of \$55.4 million of our ordinary shares to the seller parties at a fixed value of \$2.456 per ordinary share. Pursuant to the share purchase agreement we entered into with E-Times and Skyvantage, we paid the seller parties \$5.0 million. We also paid \$70 million in cash and issued 77 million ordinary shares to the shareholders of Target Media. See "Item 10.C Additional Information — Material Contracts — Framedia" and "— Target Media". We had net cash used in investing activities of \$117.8 million for in 2005, primarily in connection with the acquisition of companies, subsidiaries and regional distributors, purchase of equipment used to expand our commercial location and in-store networks, and rental deposits paid for locations on both our commercial location and in-store networks.

\$443.0 million net cash was provided by financing activities in 2007, primarily from the proceeds of \$312.5 million, net of issuance costs, from our follow-on offering in November 2007 and the proceeds of \$115.0 million, net of issuance costs, from our follow-on offering in January 2007. \$153.5 million net cash was provided by financing activities in 2006, primarily from the proceeds of \$142.8 million, net of issuance costs, from our follow-on offerings. \$119.2 million net cash was provided by financing activities in 2005, primarily from the proceeds of our initial public offering in July 2005.

We believe that our current cash and cash equivalents, cash flow from operations and the proceeds from our most recent public offering will be sufficient to meet our anticipated cash needs, including for working capital and capital expenditures, for the foreseeable future. These additional cash needs may include costs associated

with the expansion of our network, such as the purchase of flat-panel displays and LED digital billboards and increased location cost, including in connection with our acquisition of Framedia, Target Media, E-Times, Focus Media Wireless and CGEN, as well as possible acquisitions of our regional distributors. We are also required under PRC law to set aside 10% of our after-tax profits into a general reserve fund. We expect that revenues from operation of our advertising network and the proceeds from this offering will be sufficient to cover any such obligations and costs. We may, however, require additional cash resources due to changed business conditions or other future developments. If these sources are insufficient to satisfy our cash requirements, we may seek to sell debt securities or additional equity securities or obtain a credit facility. The sale of convertible debt securities or additional equity securities could result in additional dilution to our shareholders. The incurrence of indebtedness would result in debt service obligations and could result in operating and financial covenants that would restrict our operations. We cannot assure you that financing will be available in amounts or on terms acceptable to us, if at all.

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

Transactions with Related Parties

Our transactions with related parties have been conducted on arm's length terms. See "Item 7. Major Shareholders and Related Party Transactions — B. Related Party Transactions" and Note 17 to our audited consolidated financial statements included in this annual report.

Capital Expenditures

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

	For the year ended December 31,		
	2005	2006	2007
	(in thousands of U.S. dollars)		
Total capital expenditure	\$ 36,765	\$ 22,878	\$ 55,776

Our capital expenditures were made primarily to acquire flat-panel displays and digital frames for our advertising network. Our capital expenditures are primarily funded by net cash provided from operating activities. We expect our capital expenditures in 2008, in an amount of approximately \$50 million, to primarily consist of purchases of components for our flat-panel displays and new poster frames as we continue to expand our commercial location network, in-store network and poster frame network. We also intend to upgrade our financial, accounting systems and internal control systems. As opportunities arise, we may make additional acquisitions of regional distributors and other businesses that complement our operations. We believe that we will be able to fund these upgrades and equipment purchases through the revenues we generate, and do not anticipate that these obligations will have a material impact on our liquidity needs.

Restricted Net Assets

Relevant PRC laws and regulations permit payments of dividends by our PRC subsidiaries only out of their retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. In addition, PRC laws and regulations require that annual appropriations of 10% of after-tax income for our general reserve fund should be set aside prior to payment of dividends. As a result of these PRC laws and regulations, our PRC subsidiaries and our affiliated PRC entities are restricted in their ability to transfer a portion of their net assets to us whether in the form of dividends, loans or advances. As of December 31, 2006 and 2007, the amount of our restricted net assets was approximately \$223.4 million and \$447.6 million, respectively.

C. RESEARCH, DEVELOPMENT, PATENTS AND LICENSES, ETC.

Research and Development

We intend to continue to develop a more advanced model of flat-panel display that uses mobile communications and wireless technology to receive, store, configure and play back advertising content. Whether or not we deploy this newer technology will depend upon cost and network security. We are also developing related software systems that will enable us to configure and run the content on our advertising network in conjunction with mobile communications systems. We also continue to develop proprietary software and systems in connection with the operation of and provision of services through our online advertising services business through Allyes.

Patents and Trademarks

We believe that the value of our advertising network derives from its effectiveness in reaching a large number of consumers with higher-than-average disposable incomes in urban areas. To a great extent, our business model does not rely on advanced or sophisticated technology or on proprietary trade secrets because our flat-panel displays are assembled with components purchased in off-the-shelf form from wholesale distributors. We endeavor to protect certain of the designs and operating software we use in each generation of our flat-panel displays. We currently hold design patents for our new model of flat-panel display and our software. We have the right to use several trademarks relating to the "Focus Media" brand name in China and in Singapore. We also have the right to use several trademarks relating to the "Framedia" brand name in China. Following our acquisition of Allyes, we also acquired all of its intellectual property including that held by its subsidiaries and affiliates.

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

The technology developed by Allyes enables us to collect and use data derived from user activity on the Internet. Although we believe that we have the right to use this information and to compile it in our databases, we cannot assure you that any trade secret, copyright or other protection will be available for this information. In addition, our clients and other parties may claim rights to this information.

D. TREND INFORMATION

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

E. OFF-BALANCE SHEET ARRANGEMENTS

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

F. TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

The following table sets forth our contractual obligations and commitments with definitive payment terms on a consolidated basis which will require significant cash outlays in the future as of December 31, 2007.

	Payments due December 31,					
	TOTAL	2008	2009	2010	2011	Thereafter
Display and poster frame placement agreement obligations	\$ 194,068	\$ 96,042	\$ 54,958	\$ 23,786	\$ 10,278	\$ 9,004
Office premise lease obligations	13,283	6,014	4,068	1,711	1,282	208
Total contractual obligations	\$ 207,351	\$ 102,056	\$ 59,026	\$ 25,497	\$ 11,560	\$ 9,212

Other than certain leasing arrangements relating to the placement of our flat-panel and office premises, as of December 31, 2007, we did not have any long-term debt obligations, operating lease obligations or purchase obligations.

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TO THE BOARD OF DIRECTORS AND SHAREHOLDERS OF FOCUS MEDIA HOLDING LIMITED

We have audited the accompanying consolidated balance sheets of Focus Media Holding Limited and subsidiaries (the “Group”) as of December 31, 2005, 2006, and 2007, and the related consolidated statements of operations, shareholders’ equity (deficiency) and comprehensive income, and cash flows for each of the three years in the period ended December 31, 2007. These financial statements are the responsibility of the Group’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Focus Media Holding Limited and subsidiaries as of December 31, 2005, 2006, and 2007, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2007, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 11 to the consolidated financial statements, effective January 1, 2007, the Group adopted FASB Interpretation No. 48, “Accounting for Uncertainty in Income Taxes — an Interpretation of FASB Statement No. 109”. Also, as discussed in Note 2(s) to the consolidated financial statements, effective January 1, 2006, the Group changed its method of accounting for share-based payments to conform to Statement of Financial Accounting Standards No. 123R “Share-based Payment”.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company’s internal control over financial reporting as of December 31, 2007, based on the criteria established in “Internal Control—Integrated Framework” issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) and our report dated May 6, 2008 expressed an unqualified opinion on the Group’s internal control over financial reporting.

DELOITTE TOUCHE TOHMATSU CPA LTD.

Shanghai, China
May 6, 2008

Consolidated Balance Sheets

	December 31,		
	2005	2006	2007
(In U.S. Dollars, except share data)			
Assets			
Current assets:			
Cash and cash equivalents	\$ 36,653,180	\$ 164,610,942	\$ 450,416,381
Investment in debt and equity securities	34,835,850	—	90,145,360
Accounts receivable, net of allowance for doubtful accounts of \$396,657, \$1,308,554 and \$5,310,835 in 2005, 2006 and 2007, respectively	21,188,531	61,614,343	206,102,130
Inventories	479,529	519,095	1,654,451
Prepaid expenses and other current assets	4,444,303	5,199,355	58,884,992
Deposits paid for acquisition of subsidiaries	40,919,530	3,526,370	40,401,852
Amounts due from related parties	3,120,206	7,852,789	5,091,529
Rental deposits	—	—	28,762,699
Total current assets	141,641,129	243,322,894	881,459,394
Rental deposits	11,819,095	11,833,290	5,301,990
Equipment, net	43,694,888	70,249,324	95,478,326
Acquired intangible assets, net	1,157,920	34,717,019	155,717,055
Goodwill	13,298,072	739,743,871	943,398,282
Other long-term assets	742,914	6,375,682	58,182,855
Total assets	\$ 212,354,018	\$ 1,106,242,080	\$ 2,139,537,902
Liabilities and shareholders' equity			
Current liabilities:			
Short-term loans	\$ 991,301	\$ 2,769,459	\$ —
Accounts payable	5,847,530	5,987,593	50,378,576
Accrued expenses and other current liabilities	11,746,902	38,674,175	190,312,946
Income taxes payable	2,108,071	4,060,170	21,391,295
Amount due to related parties	—	345,768	12,977,136
Deferred tax liabilities	—	—	1,226,999
Total current liabilities	20,693,804	51,837,165	276,286,952
Deferred tax liabilities	—	3,303,110	6,393,505
Total liabilities	\$ 20,693,804	\$ 55,140,275	\$ 282,680,457
Commitments and contingencies (Note 17)			
Minority interest	245,563	357,814	1,913,248

	December 31,		
	2005	2006	2007
(In U.S. Dollars, except share data)			
Shareholders' equity			
Ordinary shares (\$0.00005 par value; 19,800,000, 19,800,000,000 and 19,800,000,000 shares authorized in 2005, 2006 and 2007; 378,306,000, 534,896,873 and 640,230,852 shares issued and outstanding in 2005, 2006 and 2007, respectively)	18,916	26,745	32,020
Additional paid-in capital	177,419,761	709,196,246	1,581,579,792
Acquisition consideration to be issued	—	237,879,480	—
Deferred share-based compensation	(246,569)	—	—
Retained earnings	12,997,237	96,194,969	236,718,179
Accumulated other comprehensive income	1,225,306	7,446,551	36,614,206
Total shareholders' equity	\$ 191,414,651	\$ 1,050,743,991	\$ 1,854,944,197
Total liabilities and shareholders' equity	\$ 212,354,018	\$ 1,106,242,080	\$ 2,139,537,902

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Operations

	For the years ended December 31,		
	2005	2006	2007
	(In U.S. Dollars, except share data)		
Net revenues:			
Advertising Service Revenue	\$ 66,903,679	\$ 209,973,935	\$ 505,445,386
Other Revenue	1,325,234	1,931,530	1,114,384
Total net revenues	68,228,913	211,905,465	506,559,770
Cost of revenues:			
Advertising Service Cost	25,748,318	80,615,408	247,644,672
Other Cost	975,747	764,959	797,717
Total cost of revenues	26,724,065	81,380,367	248,442,389
Gross profit	41,504,848	130,525,098	258,117,381
Operating expenses:			
General and administrative	9,119,846	25,723,413	49,455,529
Selling and marketing	9,599,226	25,761,948	69,932,201
Other operating income	—	(1,338,334)	(5,125,052)
Total operating expenses	18,719,072	50,147,027	114,262,678
Income from operations	22,785,776	80,378,071	143,854,703
Interest income	1,811,782	4,560,798	9,777,655
Interest expense	(49,873)	(305,287)	(25,269)
Other income	70,471	271,451	3,948,028
Other expense	(231,619)	(558,990)	(1,379,633)
Income before income taxes and minority interest	24,386,537	84,346,043	156,175,484
Income taxes	694,453	1,043,538	11,045,565
Net income after income taxes before minority interest	23,692,084	83,302,505	145,129,919
Minority interest	(144,433)	(104,773)	(694,370)
Net income attributable to holders of ordinary shares	\$ 23,547,651	\$ 83,197,732	\$ 144,435,549
Income per share — basic	\$ 0.09	\$ 0.16	\$ 0.24
Income per share — diluted	\$ 0.06	\$ 0.16	\$ 0.24
Shares used in calculating basic income per share	252,128,545	505,411,079	590,387,396
Shares used in calculating diluted income per share	365,938,094	521,536,381	608,326,450

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Shareholders' Equity (Deficiency) and Comprehensive Income

	Ordinary		Additional paid-in capital	Deferred share based compensation	Retained earnings (accumulated deficit)	Accumulated other comprehensive income (loss)	Total shareholders' equity (deficiency)	Comprehensive income
	Shares	Amount						
(In U.S. dollars, except share data)								
Balance at January 1, 2005	142,464,600	\$ 7,124	\$ 5,981,154	(969,959)	\$ (10,550,414)	\$ (41,106)	\$ (5,573,201)	\$ 373,401
Series A convertible redeemable preference shares converted into ordinary shares upon initial public offering	41,967,400	2,098	6,293,012	—	—	—	6,295,110	—
Series B convertible redeemable preference shares converted into ordinary shares upon initial public offering	48,191,600	2,409	12,060,287	—	—	—	12,062,696	—
Series C-1 convertible redeemable preference shares converted into ordinary shares upon initial public offering	34,054,000	1,703	17,498,647	—	—	—	17,500,350	—
Series C-2 convertible redeemable preference shares converted into ordinary shares upon initial public offering	34,053,400	1,703	17,413,297	—	—	—	17,415,000	—
Issuance of ordinary shares upon initial public offering, net of issuance cost of \$13,703,370	77,575,000	3,879	118,170,251	—	—	—	118,174,130	—
Deferred share-based compensation	—	—	(264,751)	264,751	—	—	—	—
Share-based compensation expense	—	—	267,864	458,639	—	—	726,503	—
Unrealized loss on debt securities	—	—	—	—	—	(164,150)	(164,150)	(164,150)
Cumulative translation adjustments	—	—	—	—	—	1,430,562	1,430,562	1,430,562
Net income	—	—	—	—	23,547,651	—	23,547,651	23,547,651
Balance at December 31, 2005	378,306,000	\$ 18,916	\$ 177,419,761	(246,569)	\$ 12,997,237	\$ 1,225,306	\$ 191,414,651	\$ 24,814,063
Issuance of ordinary shares upon follow-on offering on January 27, 2006, net of issuance cost of \$3,466,700	15,000,000	750	61,782,550	—	—	—	61,783,300	—
Issuance of ordinary shares upon follow-on offering on June 16, 2006, net of issuance cost of \$2,740,407	16,000,000	800	80,966,793	—	—	—	80,967,593	—
Issuance of ordinary shares in connection with acquisitions	99,254,193	4,962	365,660,061	—	—	—	365,665,023	—
Issuance of ordinary shares pursuant to share option plans	26,336,680	1,317	15,246,244	—	—	—	15,247,561	—
Ordinary shares to be issued in connection with acquisitions	—	—	237,879,480	—	—	—	237,879,480	—
Adjustment for the adoption of SFAS 123R	—	—	(246,569)	246,569	—	—	—	—
Share-based compensation expense	—	—	8,367,406	—	—	—	8,367,406	—
Realized gain on debt securities	—	—	—	—	—	164,150	164,150	164,150
Cumulative translation adjustments	—	—	—	—	—	6,057,095	6,057,095	6,057,095
Net income	—	—	—	—	83,197,732	—	83,197,732	83,197,732

Consolidated Statements of Shareholders' Equity (Deficiency) and Comprehensive Income

	Ordinary		Additional paid-in capital	Deferred share based compensation	Retained earnings (accumulated deficit)	Accumulated other comprehensive income (loss)	Total shareholders' equity (deficiency)	Comprehensive income
	Shares	Amount						
Balance at December 31, 2006	534,896,873	\$ 26,745	\$ 947,075,726	\$ —	\$ 96,194,969	\$ 7,446,551	\$ 1,050,743,991	\$ 89,418,977
Issuance of ordinary shares upon follow-on offering on January 25, 2007, net of issuance cost of \$672,289	15,000,000	750	114,869,653	—	—	—	114,870,403	—
Issuance of ordinary shares upon follow-on offering on November 7, 2007, net of issuance cost of \$1,463,191	25,000,000	1,250	312,573,058	—	—	—	312,574,308	—
Issuance of ordinary shares in connection with acquisitions	57,299,699	2,865	166,047,247	—	—	—	166,050,112	—
Issuance of ordinary shares in connection with share option plans	8,034,280	410	19,559,81	—	—	—	19,560,220	—
Adjustment upon adoption of FIN 48	—	—	—	—	(3,912,339)	—	(3,912,339)	—
Share-based compensation expense	—	—	21,454,298	—	—	—	21,454,298	—
Unrealized gain on equity securities	—	—	—	—	—	1,967,393	1,967,393	1,967,393
Cumulative translation adjustments	—	—	—	—	—	27,200,262	27,200,262	27,200,262
Net income	—	—	—	—	144,435,549	—	144,435,549	144,435,549
Balance at December 31, 2007	640,230,852	\$ 32,020	\$ 1,581,579,792	\$ —	\$ 236,718,179	\$ 36,614,206	\$ 1,854,944,197	\$ 173,603,204

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Cash Flows

	For the year ended December 31,		
	2005	2006	2007
	(In U.S. dollars)		
Operating activities:			
Net income attributable to holders of ordinary shares	23,547,651	83,197,732	144,435,549
Adjustments to reconcile net income to net cash provided by operating activities:			
Minority interest	144,433	104,773	694,370
Bad debt provision	235,604	1,844,605	3,655,448
Share-based compensation	726,503	8,367,406	21,454,298
Loss on disposal of equipment	—	—	3,674,886
Depreciation and amortization	4,927,016	19,511,552	44,197,504
Changes in assets and liabilities, net of effects of acquisitions:			
Accounts receivable, net	(14,710,176)	(22,289,344)	(92,171,199)
Inventories	(408,223)	23,334	(1,113,692)
Prepaid expenses and other current assets	(2,347,426)	7,857,172	(904,345)
Amounts due from related parties	(380,174)	(4,732,583)	(5,762,593)
Rental deposits	(10,076,230)	3,104,667	(22,231,398)
Accounts payable	5,007,564	(3,174,405)	11,670,114
Accrued expenses and other current liabilities	3,950,903	(1,673,496)	37,678,359
Amounts due to related parties	—	—	12,631,368
Income tax payable	672,585	1,276,252	10,033,244
Deferred taxes	(20,664)	(63,383)	(982,272)
Net cash provided by operating activities	\$ 11,269,366	\$ 93,354,282	\$ 166,959,641
Investing activities:			
Purchase of equipment and other long-term assets	\$ (36,765,294)	\$ (22,878,254)	\$ (59,450,942)
Acquisition of intangible assets	—	(6,403,114)	(105,049)
Purchase of subsidiaries, net of cash acquired	(4,982,523)	(124,062,515)	(81,779,531)
Deposit paid to acquire subsidiaries	(40,919,530)	(3,710,369)	(83,367,278)
Disposal of an equity investment	—	60,005	—
Cash paid for purchases of debt and equity securities	(35,000,000)	—	(88,177,967)
Cash received from sale of debt and equity securities	—	35,000,000	—
Issuance of loan receivables	—	—	(30,000,000)
Net cash used in investing activities	\$ (117,667,347)	\$ (121,994,247)	\$ (342,880,767)

	For the year ended December 31,		
	2005	2006	2007
	(In U.S. dollars)		
Financing activities:			
Proceeds from issuance of ordinary shares, net of issuance costs of \$13,703,370, \$6,207,107 and \$2,135,480 in 2005, 2006 and 2007, respectively	\$ 118,174,130	\$ 142,750,893	\$ 427,444,711
Proceeds from issuance of ordinary shares pursuant to share option plans	—	15,247,561	19,560,220
Proceeds from short-term loans	991,301	24,598,037	—
Repayment of short-term loans	—	(29,402,066)	(4,165,716)
Capital injection from minority shareholders	3,089	326,307	136,914
Net cash provided by financing activities	\$ 119,168,520	\$ 153,520,732	\$ 442,976,129
Effect of exchange rate changes	\$ 1,213,535	\$ 3,076,995	\$ 18,750,436
Net increase in cash and cash equivalents	\$ 13,984,074	\$ 127,957,762	\$ 285,805,439
Cash and cash equivalents, beginning of year	22,669,106	36,653,180	164,610,942
Cash and cash equivalents, end of year	\$ 36,653,180	\$ 164,610,942	\$ 450,416,381
Supplemental disclosure of cash flow information			
Income taxes paid	\$ 94,391	\$ 153,526	\$ 1,247,277
Interest paid	\$ 11,581	\$ 244,702	\$ 13,897
SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING ACTIVITIES			
Non-cash investing activities:			
Acquisition of subsidiaries:			
Value of ordinary shares issued	\$ —	\$ 365,665,023	\$ 166,047,247
Ordinary share consideration to be issued	\$ —	\$ 237,879,480	\$ —
Accounts payable	\$ 99,130	\$ 4,530,745	\$ 17,873,584
Liabilities recorded as a result of contingent consideration	\$ —	\$ 379,436	\$ 72,902,515

The accompanying notes are an integral part of these consolidated financial statements.

For the years ended December 31, 2005, 2006 and 2007
(In U.S. dollars except share data and unless otherwise stated)

1. ORGANIZATION AND PRINCIPAL ACTIVITIES

Focus Media Holding Limited and all of its subsidiaries (collectively referred to as the “Group”) are mainly engaged in selling out-of-home television advertising time slots on its network of flat-panel television advertising displays located in high traffic areas such as commercial locations and in-store network. The Group is also engaged in providing advertising services on in-elevator poster frames, mobile handsets and the internet.

PRC regulations currently limit foreign ownership of companies that provide advertising services, including out-of-home television advertising services. To comply with these regulations, the Group conducts substantially all of its activities through Focus Media Advertisement Co., Ltd. (“Focus Media Advertisement”), a variable interest entity and its subsidiaries. On April 11, 2004, the majority shareholder of Focus Media Advertisement, Jason Nanchun Jiang, incorporated Focus Media Holding Limited (“Focus Media Holding” or the “Company”) with the same shareholders of Focus Media Advertisement. Focus Media Advertisement entered into various agreements with 100% owned subsidiaries of Focus Media Holding, i.e. Focus Media Technology (Shanghai) Co., Ltd. (“Focus Media Technology”) and Focus Media Digital Information Technology (Shanghai) Co., Ltd. (“Focus Media Digital”), including a transfer of trademarks and exclusive services agreement. Under these agreements, Focus Media Advertisement has the right to use the trade name of Focus Media Technology and Focus Media Digital, provides technical and consulting services to Focus Media Advertisement and its subsidiaries. In return, Focus Media Advertisement and its subsidiaries are required to pay Focus Media Technology service fees for the use of trade name and Focus Media Digital for the technical and consulting services it receives. The technical and consulting service fees are adjusted at Focus Media Digital's sole discretion. Focus Media Digital is entitled to receive service fees in an amount up to all of the net income of Focus Media Advertising.

In addition, Focus Media Holding, through Focus Media Technology, has been assigned all voting rights by the direct and indirect owners of Focus Media Advertisement through an agreement valid indefinitely that cannot be amended or terminated except by written consent of all parties. Finally, Focus Media Holding, through Focus Media Technology has the option to acquire the equity interests of Focus Media Advertisement and its subsidiaries for a purchase price equal to the respective registered capital of Focus Media Advertisement and its subsidiaries or a proportionate amount thereof, or such higher price as required under PRC laws at the time of such purchase. Each of the shareholders of Focus Media Advertisement has agreed to pay Focus Media Holding any excess of the purchase price paid for such equity interests in, or assets of, Focus Media Advertisement or its subsidiaries over the registered capital of Focus Media Advertisement or its subsidiaries in the event that such option is exercised.

Through the contractual arrangements described above, Focus Media Holding is deemed the primary beneficiary of Focus Media Advertisement resulting in Focus Media Advertisement being deemed a subsidiary of Focus Media Holding under the requirements of FIN 46 (Revised), “Consolidation of Variable Interest Entities” (“FIN 46(R)"). In substance, an existing company, Focus Media Advertisement, has been reorganized as a subsidiary of the new company Focus Media Holding. Focus Media Holding has the same controlling shareholder and the same non-controlling shareholders. Accordingly, the Group's financial statements reflect the consolidated financial statements of Focus Media Holding and its subsidiaries, which include Focus Media Advertisement and its subsidiaries for all periods presented.

For the years ended December 31, 2005, 2006 and 2007
(In U.S. dollars except share data and unless otherwise stated)

1. ORGANIZATION AND PRINCIPAL ACTIVITIES (continued)

As of December 31, 2007, the major subsidiaries of Focus Media Holding and Focus Media Advertisement's subsidiaries include the Appendix 1 attached.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

The consolidated financial statements of the Group have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP").

(b) Basis of Consolidation

The consolidated financial statements include the financial statements of Focus Media Holding, its majority-owned subsidiaries, its variable interest entity and its majority-owned subsidiaries. All inter-company transactions and balances have been eliminated upon consolidation.

(c) Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and highly liquid investments which are unrestricted as to withdrawal or use, and which have original maturities of three months or less when purchased.

(d) Use of Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and revenue and expenses in the financial statements and accompanying notes. Significant accounting estimates reflected in the Group's financial statements include allowance for doubtful accounts, useful lives and impairment for long-lived assets and goodwill, the recognition and measurement of current and deferred income tax assets, and the valuation and recognition of share-based compensation. The actual results experienced by the Company may differ from management's estimates.

(e) Investment in Available-for-sale Debt and Equity Securities

The Group classifies all of its short-term investments as available-for-sale securities. Such short-term investments consist primarily of debt and equity instruments which are stated at fair market value, with unrealized gains and losses recorded as accumulated other comprehensive income.

For the years ended December 31, 2005, 2006 and 2007
(In U.S. dollars except share data and unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Inventory

Inventory is comprised of media display equipments and compact flash cards, which are held for sale. Inventory is stated at the lower of cost or market value. Adjustments are recorded to write down the cost of obsolete and excess inventory to the estimated market value based on historical and forecast demand.

(g) Equipment, Net

Equipment, net is carried at cost less accumulated depreciation and amortization. Depreciation and amortization is calculated on a straight-line basis over the following estimated useful lives:

Media display equipment	5 years
Computers and office equipment	5 years
Vehicles	5 years
Leasehold improvements	lesser of the term of the lease or the estimated useful lives of the assets

The Group assembles certain of the media display equipment. In addition to costs under assembly contracts, external costs directly related to the assembly of such equipment, including duty and tariff, equipment installation and shipping costs, are capitalized.

(h) Acquired Intangible Assets, Net

Acquired intangible assets, which consist of operation and broadcasting rights, lease agreements, customer bases, customer backlogs, trademarks, non-compete agreements, and acquired technology are valued at cost less accumulated amortization. Amortization is calculated using the straight-line method over their expected useful lives of 1 to 10 years.

(i) Impairment of Long-Lived Assets

The Group evaluates its long-lived assets and intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. When these events occur, the Group measures impairment by comparing the carrying amount of the assets to the future undiscounted cash flows expected to result from the use of the assets and their eventual disposition. If the sum of the future undiscounted cash flow is less than the carrying amount of the assets, the Group would recognize an impairment loss equal to the excess of the carrying amount over the fair value of the assets.

For the years ended December 31, 2005, 2006 and 2007
(In U.S. dollars except share data and unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Goodwill

SFAS No. 142 "Goodwill and Other Intangible Assets" requires the Group to complete a two-step goodwill impairment test. The first step compares the fair value of each reporting unit to its carrying amount, including goodwill. If the fair value of each reporting unit exceeds its carrying amount, goodwill is not considered to be impaired and the second step will not be required. If the carrying amount of a reporting unit exceeds its fair value, the second step compares the implied fair value of goodwill to the carrying value of a reporting unit's goodwill. The implied fair value of goodwill is determined in a manner similar to accounting for a business combination with the allocation of the assessed fair value determined in the first step to the assets and liabilities of the reporting unit. The excess of the fair value of the reporting unit over the amounts assigned to the assets and liabilities is the implied fair value of goodwill. This allocation process is only performed for purposes of evaluating goodwill impairment and does not result in an entry to adjust the value of any assets or liabilities. An impairment loss is recognized for any excess in the carrying value of goodwill over the implied fair value of goodwill. Management performed an annual goodwill impairment test for each of its reporting units as of December 31, 2005, 2006, and 2007, and no impairment loss was required.

The changes in the carrying amount of goodwill by segment for the year ended December 31, 2005, 2006 and 2007 are as follows:

	Out-of-Home Television Advertising Services	In-elevator Poster-frame Advertising Services	Mobile Handset Advertising Services	Internet Advertising Services	Total
Balance as of January 1, 2005	\$ 9,058,086	\$ —	\$ —	\$ —	\$ 9,058,086
Goodwill acquired during the year	4,043,747	—	—	—	4,043,747
Tax benefits arising from acquired subsidiaries	(244,236)	—	—	—	(244,236)
Modification of preliminary purchase price allocation	64,477	—	—	—	64,477
Translation adjustments	375,998	—	—	—	375,998
Balance as of December 31, 2005	\$ 13,298,072	\$ —	\$ —	\$ —	\$ 13,298,072
Goodwill acquired during the year	380,109,233	99,683,161	8,444,464	—	488,236,858
Goodwill recorded as a result of contingent consideration resolved	—	237,879,480	—	—	237,879,480
Translation adjustments	329,461	—	—	—	329,461
Balance as of December 31, 2006	\$ 393,736,766	\$ 337,562,641	\$ 8,444,464	\$ —	\$ 739,743,871
Goodwill acquired during the year	144,189	129,395	22,745,267	166,646,082	189,664,933
Modification of preliminary purchase price allocation	1,067,825	(371,912)	44,835	—	740,748
Goodwill recorded as a result of contingent consideration resolved	783,653	—	11,769,000	—	12,552,653
Translation adjustments	696,077	—	—	—	696,077
Balance as of December 31, 2007	\$ 396,428,510	\$ 337,320,124	\$ 43,003,566	\$ 166,646,082	\$ 943,398,282

For the years ended December 31, 2005, 2006 and 2007
(In U.S. dollars except share data and unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Revenue Recognition

The Group's revenues are primarily derived from advertising services and to a lesser extent, sales from advertising equipment and sales from Internet subscriptions and perpetual licenses to its Adforward software.

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

The Group generates advertising service revenues from the sale of advertising time slots in the out-of-home television advertising networks, the sales of frame space on the poster frame network, and the sales of advertising service through the mobile handset advertising and internet network. In the majority of advertising arrangements, the Group acts as a principal in the transaction and records advertising revenues on a gross basis. The associated expenses are recorded as cost of revenues. In some instances the Group is considered an agent and recognizes revenue on a net basis. Revenues from advertising services are recognized, net of agency rebates, ratably over the period in which the advertisement is displayed, assuming all other revenue recognition criteria have been met.

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

Adforward software sales typically include multiple elements, including sale of software licenses and services. Service includes installation, training and post contract customer support ("PCS"), which consists of when-and-if available software license updates and technical support. The Group recognizes revenues based on the provisions of the American Institute of Certified Public Accountants Statement of Position ("SOP") No. 97-2, "Software Revenue Recognition", as amended by SOP No. 98-9, "Modification of SOP No. 97-2, Software Revenue Recognition, With Respect to Certain Transactions." Revenues under multiple-element arrangements are allocated to each element in the arrangement primarily using the residual method based upon the fair value of the undelivered elements, which is specific to the Group (vendor-specific objective evidence of fair value or VSOE). This means that the Group defers revenue from the arrangement fee equivalent to the fair value of the undelivered elements. Discounts, if any, are applied to the delivered elements, usually software licenses, under the residual method. VSOE for PCS is determined based on either the renewal rate specified in each contract or the price charged when each element is sold separately. If the Group does not have VSOE for the undelivered elements, revenue recognition is deferred until VSOE for such elements are obtained or until all elements have been delivered.

For the years ended December 31, 2005, 2006 and 2007
(In U.S. dollars except share data and unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Revenue Recognition (continued)

The Group sells Adforward subscriptions and perpetual licenses. Revenues are recognized for subscription arrangements ratably over the subscription period for those with fixed fees and as earned (based on actual usage) under our variable fee arrangements. Under perpetual license agreements, revenue recognition generally commences when delivery has occurred, software has been installed and training has been provided as the Group does not currently have VSOE for either installation or training services.

The Group entered into franchise arrangements with a number of third party franchisors. In accordance with Statement of Financial Accounting Standards ("SFAS") No. 45 "Accounting For Franchise Fee Revenue", revenue from initial franchise fees was recognized when the franchise sale transaction was completed, that is, when all material services or conditions relating to the sale had been substantially performed or satisfied by the franchisor.

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

For the years ended December 31, 2005, 2006 and 2007
(In U.S. dollars except share data and unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Revenue Recognition (continued)

The Group presents advertising service revenue, net of sales taxes incurred, as follows:

	For the years ended December 31,		
	2005	2006	2007
	(In U.S. dollars, except per share data)		
Advertising Service Revenue, Net of Agency rebates			
<i>Commercial Locations</i>			
— Unrelated parties	\$ 59,434,823	\$ 130,474,324	\$ 238,117,687
— Related parties	7,991,434	15,227,937	2,468,526
Total Commercial Locations	67,426,257	145,702,261	240,586,213
<i>In-store Network</i>			
— Unrelated parties	5,475,192	25,330,654	28,986,724
— Related parties	517,998	4,380,287	1,300,982
Total in-store network	5,993,190	29,710,941	30,287,706
<i>In-elevator poster frame</i>			
— Unrelated parties	—	44,893,004	93,157,536
— Related parties	—	—	243,628
Total In-elevator poster frame	—	44,893,004	93,401,164
<i>Mobile handset advertising</i>			
— Unrelated parties	—	10,880,075	48,407,413
— Related parties	—	—	114,427
Total mobile handset advertising	—	10,880,075	48,521,840
<i>Internet advertising</i>			
— Unrelated parties	—	—	128,831,164
— Related parties	—	—	1,139,536
Total internet advertising	—	—	129,970,700
Advertising Services Revenue:	\$ 73,419,447	\$ 231,186,281	\$ 542,767,623
Less: Sales taxes:			
<i>Commercial Locations</i>	\$ 5,991,497	\$ 13,641,118	\$ 19,905,100
<i>In-store Network</i>	524,271	2,803,349	2,843,367
<i>In-elevator poster frame</i>	—	3,988,769	7,929,207
<i>Mobile handset advertising</i>	—	779,110	1,612,832
<i>Internet advertising</i>	—	—	5,031,731
Total sales taxes	\$ 6,515,768	\$ 21,212,346	\$ 37,322,237
Net Advertising Service Revenue	66,903,679	209,973,935	505,445,386
Add: Other Revenue:	1,325,234	1,931,530	1,114,384
Net revenues:	\$ 68,228,913	\$ 211,905,465	\$ 506,559,770

For the years ended December 31, 2005, 2006 and 2007
(In U.S. dollars except share data and unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Operating Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases are charged to the consolidated statements of operations on a straight-line basis over the lease periods.

(m) Advertising Costs

The Group expenses advertising costs as incurred. Total advertising expenses were \$45,712, \$1,157,672 and \$1,086,739 for the years ended December 31, 2005, 2006, and 2007, respectively and have been included as part of selling and marketing expenses.

(n) Foreign Currency Translation

The functional and reporting currency of Focus Media Holding is the United States dollar ("US dollar"). Monetary assets and liabilities denominated in currencies other than the US dollar are translated into the US dollar at the rates of exchange ruling at the balance sheet date.

Transactions in currencies other than the US dollar during the year are converted into US dollar at the applicable rates of exchange prevailing at the first day of the month transactions occurred. Transaction gains and losses are recognized in other income or other expenses.

The financial records of the Group's subsidiaries and its variable interest entity are maintained in its local currency, the Renminbi ("RMB"), which is the functional currency. Assets and liabilities are translated at the exchange rates at the balance sheet date, equity accounts are translated at historical exchange rates and revenues, expenses, gains and losses are translated using the average rate for the year. Translation adjustments are reported as cumulative translation adjustments and are shown as a separate component of other comprehensive income in the statement of shareholders' equity (deficiency) and comprehensive income.

(o) Income Taxes

Deferred income taxes are recognized for temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements, net operating loss carry forwards and credits by applying enacted statutory tax rates applicable to future years. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Current income taxes are provided for in accordance with the laws of the relevant taxing authorities. The components of the deferred tax assets and liabilities are individually classified as current and non-current based on the characteristics of the underlying assets and liabilities.

For the years ended December 31, 2005, 2006 and 2007
(In U.S. dollars except share data and unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Income Taxes (continued)

Effective January 1, 2007, the Group adopted FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109" ("FIN 48"), which clarifies the accounting and disclosure for uncertainty in tax positions, as defined in that statement. See Note 13 for additional information including the impact of adopting FIN 48 on the Group's consolidated financial statements.

(p) Comprehensive Income

Comprehensive income includes foreign currency translation adjustments and unrealized gains (losses) on marketable securities classified as available-for-sale debt and equity securities. Comprehensive income is reported in the consolidated statements of shareholders' equity.

(q) Fair Value of Financial Instruments

Financial instruments include cash and cash equivalents, investments in debt and equity securities and short-term borrowings. The carrying values of cash and cash equivalents, investments in debt and equity securities and short-term borrowings approximate their fair values due to their short-term maturities.

(r) Share-based Compensation

Effective January 1, 2006 the Group adopted SFAS No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123-R"), using the modified prospective application transition method, which establishes accounting for share-based awards exchanged for employee services. Accordingly, share-based compensation cost is measured at grant date, based on the fair value of the award, and recognized in expense over the requisite service period. The Group previously applied Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"), and related Interpretations and provided the pro forma disclosures required by SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"). APB 25 required the Group to record a compensation charge for the excess of the market value of the share at the grant date or any other measurement date over the amount an employee must pay to acquire the share. The compensation expense is recognized over the requisite service period which is the vesting period.

For the years ended December 31, 2005, 2006 and 2007
(In U.S. dollars except share data and unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Share-based Compensation (continued)

Periods prior to the adoption of SFAS 123-R

Prior to the adoption of SFAS 123-R, the Group provided the disclosures required under SFAS 123, as amended by SFAS No. 148, "Accounting for Stock-Based Compensation — Transition and Disclosures".

The following table illustrates the effect on net income and income per share as if the Group had applied the fair value recognition provisions of SFAS 123 to options granted under the Group's share-based compensation plans prior to the adoption. For purposes of this pro forma disclosure the value of the options was estimated using the Black-Scholes option-pricing model and amortized using an accelerated method over the respective vesting periods of the awards.

	Year ended December 31, 2005
Net income, as reported	\$ 23,547,651
Add: Share-based compensation as reported	726,503
Less: Share-based compensation determined using the fair value method	(3,225,668)
Pro forma net income attributable to holders of ordinary shareholders	\$ 21,048,486
Basic income per share:	
As reported	\$ 0.09
Pro forma	\$ 0.08
Diluted income per share:	
As reported	\$ 0.06
Pro forma	\$ 0.06

As required by SFAS 123-R, management has made an estimate of expected forfeitures and is recognizing compensation costs only for those equity awards expected to vest. The cumulative effect of initially adopting SFAS 123-R was not significant. The Group's total share-based compensation expense for the year ended December 31, 2006 and 2007 was \$8,367,406 and \$21,454,298, respectively. As a result of adopting SFAS 123-R, income before income tax and net income were both lower by \$8,119,732 and \$20,864,335 than if the Group had continued to account for share-based compensation under APB 25 for the year ended December 31, 2006 and 2007, respectively. The impact on basic and diluted earnings per share in 2007 was a decrease of \$0.04 and \$0.04 per share respectively.

For the years ended December 31, 2005, 2006 and 2007
(In U.S. dollars except share data and unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Share-based Compensation (continued)

Periods prior to the adoption of SFAS 123-R (continued)

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

	2005	2006	2007
Cost of sales	\$ —	\$ 146,942	\$ 980,488
General and administrative	683,186	6,130,076	11,307,664
Selling and marketing	43,317	2,090,388	9,166,146

(s) Income per Share

Basic income per share is computed by dividing income attributable to holders of ordinary shares by the weighted average number of ordinary shares outstanding during the year. Diluted income per ordinary share reflects the potential dilution that could occur if securities or other contracts to issue ordinary shares were exercised or converted into ordinary shares. Ordinary share equivalents are excluded from the computation in loss years as their effects would be anti-dilutive.

(t) Recently Issued Accounting Standards

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurement" ("SFAS 157"), which defines fair value, establishes a framework for measuring fair value and expands disclosures about assets and liabilities measured at fair value. The Company will be required to adopt SFAS 157 for fiscal year beginning January 1, 2008. The Group is currently evaluating the impact, if any, of SFAS 157 on its financial position, results of operations and cash flows.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS 159"). SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The Group is currently evaluating the impact, if any, of SFAS 159 on its financial position, results of operations and cash flows.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), "Business Combinations" ("SFAS 141R"), which replaces SFAS No. 141, "Business Combination." The statement retains the purchase method of accounting for acquisitions, but requires a number of changes, including changes in the way assets and liabilities are recognized in the purchase accounting. It also changes the recognition of assets acquired and liabilities assumed arising from contingencies, requires the capitalization of in-process research and development at fair value, and requires the expensing of acquisition-related costs as incurred. SFAS 141R is effective for fiscal years and interim periods within those fiscal years beginning on or after December 15, 2008 and will apply prospectively to business combinations completed on or after that date. The Group is currently evaluating the impact, if any, of SFAS 141R on its financial position, results of operations and cash flows.

For the years ended December 31, 2005, 2006 and 2007
(In U.S. dollars except share data and unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) Recently Issued Accounting Standards (continued)

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB 51" ("SFAS 160"), which changes the accounting and reporting for minority interests. Minority interests will be recharacterized as noncontrolling interests and will be reported as a component of equity separate from the parent's equity, and purchases or sales of equity interests that do not result in a change in control will be accounted for as equity transactions. In addition, net income attributable to the noncontrolling interest will be included in consolidated net income on the face of the income statement and, upon a loss of control, the interest sold, as well as any interest retained, will be recorded at fair value with any gain or loss recognized in earnings. SFAS 160 is effective for fiscal years and interim periods within those fiscal years beginning on or after December 15, 2008 and will apply prospectively, except for the presentation and disclosure requirements, which will apply retrospectively. The Group is currently evaluating the impact, if any, of SFAS 160 on its financial positions, results of operations and cash flows.

3. ACQUISITIONS

2005 Acquisitions:

In 2005, the Group acquired nine entities in order to further expand its out-of-home television advertising network for total consideration of \$3,083,244, which was paid primarily in cash. As a result of these acquisitions, the Group recorded goodwill and intangible assets of \$2,809,442 and \$382,400, respectively. All of the goodwill was assigned to the out-of-home television advertising services segment.

In addition, on March 21, 2005, the Group acquired Capital Beyond Limited, including its then variable interest entity Guangdong Framedia, an advertising services provider, in exchange for cash consideration of \$2,054,008, all of which was paid as of December 31, 2005. The acquisition was recorded using the purchase method of accounting and, accordingly, the acquired assets and liabilities were recorded at their fair market value at the date of acquisition. The purchase price was allocated as follows:

		Amortization period
Net tangible assets acquired	\$ 337,252	
Intangible assets:		
Lease agreements	471,818	2.3 years
Customer base	10,633	7 years
Goodwill	1,234,305	N/A
Total	\$ 2,054,008	

For the years ended December 31, 2005, 2006 and 2007
(In U.S. dollars except share data and unless otherwise stated)

3. ACQUISITIONS (continued)

2006 Acquisitions:

On January 1, 2006, the Group acquired Infoachieve Limited (“Infoachieve”), which included its then variable interest entity Shanghai Framedia Advertising Development Ltd. (“Framedia”), the largest in-elevator poster frame advertising network operator in China. The purchase price included cash of \$39,600,000, all of which was paid as of December 31, 2005, and 22,157,003 ordinary shares having a fair value of \$54,690,130, or approximately \$2.47 per ordinary share. The fair value of the ordinary shares was based on the average market price of Focus Media Holding’s ordinary shares over a reasonable period before and after the date that the terms of the acquisition were agreed to and announced. Framedia achieved certain earnings targets for the year ended December 31, 2006 and, as a result, on June 15, 2007 the Group issued 35,830,619 ordinary shares as additional purchase consideration. As the contingency was resolved as of December 31, 2006, the Group recorded \$237,879,480 in consideration payable as a component of shareholders’ equity, which represents the fair value of the 35,830,619 shares as of December 31, 2006.

The aggregate purchase price is comprised of the following:

Cash consideration	\$ 39,600,000
Other acquisition costs	311,110
Value of the ordinary shares issued	54,690,130
Value of the ordinary shares issued as a result of contingent consideration resolved	237,879,480
Total consideration	\$ 332,480,720

The acquisition was recorded using the purchase method of accounting and, accordingly, the acquired assets and liabilities were recorded at their fair market value at the date of acquisition as follows:

		Amortization period
Net tangible liabilities assumed	\$ (8,443,960)	
Intangible assets:		
Lease agreements	8,281,999	6 years
Customer base	2,664,685	7 years
Non-compete agreement	463,558	3 years
Trademark	939,377	1 year
Contract backlog	70,120	1 year
Goodwill	328,504,941	N/A
Total	\$ 332,480,720	

The goodwill was assigned to the in-elevator poster frame advertising services segment.

For the years ended December 31, 2005, 2006 and 2007
(In U.S. dollars except share data and unless otherwise stated)

3. ACQUISITIONS (continued)

2006 Acquisitions: (continued)

On February 28, 2006, the Group acquired Target Media Holdings Limited ("Target Media"), which used to be the Group's biggest competitor in out-of-home television advertising services, and its wholly-owned subsidiary, Target Media Multi-Media technology (Shanghai) Co., Ltd. ("TMM"), and a consolidated variable interest entity, Shanghai Target Media Co., Ltd. ("STM"), one of the largest out-of-home advertising network operators in China. The purchase price included cash of \$94,000,000, all of which was paid in 2006, and 77,000,000 ordinary shares having a fair value of \$310,464,000, or \$4.032 per ordinary share. The fair value of the ordinary shares was based on average market price of Focus Media Holding's ordinary shares over a reasonable period before and after the date that the terms of the acquisition were agreed to and announced.

The aggregate purchase price of \$407,321,524 consisted of the following:

Cash consideration	\$ 94,000,000
Other acquisition costs	2,857,524
Value of the ordinary shares issued	310,464,000
Total consideration	\$ 407,321,524

The acquisition was recorded using the purchase method of accounting and, accordingly, the acquired assets and liabilities were recorded at their fair market value at the date of acquisition as follows:

		Amortization period
Net tangible assets acquired	\$ 19,629,853	
Intangible assets:		
Lease agreements	4,510,494	10 years
Customer base	449,631	7 years
Trademark	5,721,874	10 years
Contract backlog	148,550	1 year
Goodwill	376,861,122	N/A
Total	\$ 407,321,524	

The goodwill was assigned to the out-of-home television advertising services segment.

The purchase price allocation and intangible asset valuations for each of the two acquisitions described above were determined by management based on a number of factors including a valuation report provided by a third party valuation firm. The valuation report utilized and considered generally accepted valuation methodologies such as the income, market, cost and actual transaction of Group shares approach. The Group has incorporated certain assumptions which include projected cash flows and replacement costs.

For the years ended December 31, 2005, 2006 and 2007
(In U.S. dollars except share data and unless otherwise stated)

3. ACQUISITIONS (continued)

2006 Acquisitions: (continued)

In the valuation of lease agreements, customer base and contract backlog, an indication of value was developed through the application of a form of income approach, known as excess earnings method. The first step to apply the excess earning method was to estimate the future debt-free net income attributable to the intangible asset. The resulting debt-free net income was then reduced by an estimated fair rate of return on contributory assets necessary to realize the projected earnings attributable to the intangible assets. These assets include fixed assets, working capital and other intangible assets.

The valuation of the trademark was based on the relief from royalty method whereby an asset is valued based upon the after-tax cash flow savings accruing to the owner by virtue of the fact that the owner does not have to pay a "fair royalty" to a third party for the use of that asset. Accordingly, a portion of the owner's earnings, equal to the after-tax royalty that would have been paid for use of the asset can be attributed to that asset. The value of the asset depends on the present worth of future after-tax royalties attributable to the asset to their present worth at market-derived rates of return appropriate for the risks of that particular asset.

Also in 2006, the Group completed a number of individually insignificant acquisitions which are described below:

On March 21, 2006, the Group acquired Dotad Media Holdings Limited ("Dotad") in exchange for cash consideration of \$15,000,000, all of which was paid as of December 31, 2007. On June 15, 2007, additional 1,500,000 ordinary shares were issued as Dotad has met its earning targets in the first year it was acquired. An additional 1,500,000 ordinary shares is issuable contingent upon Dotad's meeting certain earning targets in 2007. The Group acquired intangible assets of \$6,587,095 and recognized goodwill of \$8,444,464. The goodwill was assigned to the mobile handset advertising services segment.

The Group acquired three entities in the poster-frame advertising business for cash consideration of \$10,670,222. The Group recognized acquired intangible assets of \$1,682,771 and recognized goodwill of \$9,057,700, which was assigned to the in-elevator poster frame advertising services segment.

The Group acquired three entities which provide out-of-home television advertising services and the remaining minority interest in six subsidiaries, for cash consideration of \$5,314,923 and 97,190 ordinary shares. Certain of these acquisitions have contingent consideration based on future earnings targets. The Group recognized acquired intangible assets of \$12,507 and recognized goodwill of \$3,248,111 which was assigned to the out-of-home television advertising services segment.

For the years ended December 31, 2005, 2006 and 2007
(In U.S. dollars except share data and unless otherwise stated)

3. ACQUISITIONS (continued)

2006 Acquisitions: (continued)

The Group acquired 70% of the outstanding ordinary shares of Appreciated Capital Ltd. and its then variable interest entity Beijing YangShiSanWei Advertisement Co., Ltd. (collectively, "ACL"). ACL sells advertising in movie theatres to its customers. The purchase consideration is fully contingent and is based on the cumulative earnings targets for the three year periods from September 1, 2006 to August 31, 2009 subject further to the attainment of certain operational targets. The Group advanced \$2.8 million to ACL. The purchase price allocation can not be completed until the contingent consideration is resolved. As such, the Group has recorded a liability of \$358,574, which is equal to the excess of the fair value of the assets acquired over cost on the date of acquisition.

2007 Acquisitions:

On March 28, 2007, the Group acquired Allyes Information Technology Company Limited ("Allyes"), the leading internet advertising company in China. The purchase price included cash of \$70,000,000 and 19,969,080 ordinary shares having a fair value of \$154,281,112, or approximately \$7.726 per ordinary share. The fair value of the ordinary shares was based on the average market price of Focus Media Holding's ordinary shares over a reasonable period before and after the date that the terms of the acquisition were agreed to and announced. Additional consideration up to 9,662,458 ordinary shares is issuable, contingent upon Allyes meeting certain earnings targets during the twelve month period from April 1, 2007 to March 31, 2008.

The aggregate purchase price excluding contingent consideration is comprised of the following:

Cash consideration	\$ 70,000,000
Other acquisition costs	417,362
Value of the ordinary shares issued	154,281,112
Total consideration	\$ 224,698,474

For the years ended December 31, 2005, 2006 and 2007
(In U.S. dollars except share data and unless otherwise stated)

3. ACQUISITIONS (continued)

2007 Acquisitions: (continued)

The acquisition was recorded using the purchase method of accounting and, accordingly, the acquired assets and liabilities were recorded at their fair market value at the date of acquisition as follows:

		Amortization period
Net tangible liabilities assumed	\$ 21,912,649	
Intangible assets		
Customer base	10,261,307	7 years
Trademark	8,147,061	N/A
Non-compete agreement	1,665,072	4 years
Completed technologies	11,847,121	6 years
Smart-trade platform	3,721,393	7 years
Contract backlog	497,789	1 year
Goodwill	166,646,082	N/A
Total	\$ 224,698,474	

The goodwill was assigned to the internet advertising services segment.

Also in 2007, the Group completed a number of individually insignificant acquisitions which are described below:

The Group acquired ten entities which provide out-of-home television advertising services for cash consideration of \$6,362,389 as of December 31, 2007. The Group recognized acquired intangible assets of \$8,047,983 and recognized goodwill of \$144,189, which was assigned to the out-of-home television advertising services segment. Part of the purchase consideration is contingent and is based on earnings targets for two to three years subsequent to the acquisition, subject further to the attainment of certain operational targets. The purchase price allocation can not be completed until the contingent consideration is resolved. As such, the Group has recorded a liability of \$2,326,468, which is equal to the excess of the fair value of the assets acquired over cost on the date of acquisition.

The Group acquired seven entities in the poster-frame advertising business for cash consideration of \$3,290,730 as of December 31, 2007. The Group recognized acquired intangible assets of \$23,143,001 and recognized goodwill of \$129,395, which was assigned to the in-elevator poster frame advertising services segment. Part of the purchase consideration is contingent and is based on earnings targets for two to three years subsequent to the acquisition, subject further to the attainment of certain operational targets. The purchase price allocation can not be completed until the contingent consideration is resolved. As such, the Group has recorded a liability of \$10,266,510, which is equal to the excess of the fair value of the assets acquired over cost on the date of acquisition.

For the years ended December 31, 2005, 2006 and 2007
(In U.S. dollars except share data and unless otherwise stated)

3. ACQUISITIONS (continued)

2007 Acquisitions: (continued)

The Group acquired two entities which provide outdoor billboard advertising services, for nil cash consideration as of December 31, 2007. The Group recognized acquired intangible assets of \$25,857,405. The purchase consideration is contingent and is based on earnings targets for two to three years subsequent to the acquisition, subject further to the attainment of certain operational targets. The purchase price allocation can not be completed until the contingent consideration is resolved. As such, the Group has recorded a liability of \$25,995,465, which is equal to the excess of the fair value of the assets acquired over cost on the date of acquisition.

The Group acquired ten entities which provide wireless advertising service, for cash consideration of \$31,063,795 and 1,500,000 ordinary shares as of December 31, 2007. The Group recognized acquired intangible assets of \$11,825,398 and recognized goodwill of \$34,514,267, which was assigned to the wireless advertising services segment. Part of the purchase consideration is contingent and is based on earnings targets for the three years subsequent to the acquisition, subject further to the attainment of certain operational targets. The purchase price allocation can not be completed until the contingent consideration is resolved. As such, the Group has recorded a liability of \$2,653,357, which is equal to the excess of the fair value of the assets acquired over cost on the date of acquisition.

In addition to Allyes, the Group also acquired eight entities which provide internet advertising service, for cash consideration of \$6,940,832 as of December 31, 2007. The Group recognized acquired intangible assets of \$35,918,189, which was assigned to the internet advertising services segment. Part of the purchase consideration is contingent and is based on earnings targets for three years subsequent to the acquisition, subject further to the attainment of certain operational targets. The purchase price allocation can not be completed until the contingent consideration is resolved. As such, the Group has recorded a liability of \$30,896,895, which is equal to the excess of the fair value of the assets acquired over cost on the date of acquisition.

For the years ended December 31, 2005, 2006 and 2007
(In U.S. dollars except share data and unless otherwise stated)

3. ACQUISITIONS (continued)

Pro forma (unaudited)

The following summarized unaudited pro forma results of operations for the years ended December 31, 2005, 2006 and 2007, have been prepared assuming that the individually material acquisitions, being Capital Beyond Limited, Infoachieve Limited, Target Media Holdings Limited and Allyes Information Technology Company Limited, occurred as of January 1, 2005, 2006 and 2007. These pro forma results have been prepared for comparative purposes only based on management's best estimate and do not purport to be indicative of the results of operations which actually would have resulted had the acquisitions occurred as of January 1, 2005, 2006 and 2007.

	Pro forma		
	Year ended December 31,		
	2005 (unaudited)	2006 (unaudited)	2007 (unaudited)
Revenues	\$ 113,750,432	\$ 264,014,401	\$517,148,361
Net income (loss) attributable to holders of ordinary shares	3,127,583	69,471,318	140,098,285
Income (loss) per share — basic	\$ 0.01	\$ 0.13	\$ 0.24
Income (loss) per share — diluted	\$ 0.01	\$ 0.13	\$ 0.23

4. INVESTMENT IN DEBT AND EQUITY SECURITIES

The following is a summary of short-term available-for-sale debt and equity securities:

	December 31,		
	2005	2006	2007
Debt and Equity Securities	\$ 35,000,000	\$ —	\$ 88,177,967
Gross unrealized gain (loss)	(164,150)	—	1,967,393
Fair Value	\$ 34,835,850	\$ —	\$ 90,145,360

For the years ended December 31, 2005, 2006 and 2007
(In U.S. dollars except share data and unless otherwise stated)

5. ACCOUNTS RECEIVABLE, NET

Accounts receivable, net consists of the following:

	December 31,		
	2005	2006	2007
Billed receivables	\$ 13,684,419	\$ 37,922,093	\$167,443,428
Unbilled receivables	7,504,112	23,692,250	38,658,702
Total	\$ 21,188,531	\$ 61,614,343	\$206,102,130

Unbilled receivables represent amounts earned under advertising contracts in progress but not billable at the respective balance sheet dates. These amounts become billable according to the contract term. The Group anticipates that substantially all of such unbilled amounts will be billed and collected within twelve months of balance sheet dates.

6. ACQUIRED INTANGIBLE ASSETS, NET

As of December 31, 2005, 2006 and 2007, the Group has the following amounts related to intangible assets:

	December 31,		
	2005	2006	2007
Cost:			
Operation and broadcasting rights	\$ —	\$ 6,403,114	\$ 9,251,020
Lease agreements	1,249,843	16,336,586	69,366,199
Customer bases	430,879	7,827,587	52,943,013
Trademark	—	6,861,065	18,555,020
Acquired technology	—	2,546,519	21,229,362
Others	—	1,177,276	16,701,599
Total	\$ 1,680,722	\$ 41,152,147	\$188,046,213
Accumulated amortization:			
Operation and broadcasting rights	\$ —	\$ 80,039	\$ 850,263
Lease agreements	447,578	3,015,639	12,866,124
Customer bases	75,224	1,051,403	8,280,127
Trademark	—	1,462,163	2,192,685
Acquired technology	—	381,978	3,710,502
Others	—	443,906	4,429,457
Total	\$ 522,802	\$ 6,435,128	\$ 32,329,158
Intangible assets, net:	\$ 1,157,920	\$ 34,717,019	\$155,717,055

For the years ended December 31, 2005, 2006 and 2007
(In U.S. dollars except share data and unless otherwise stated)

6. ACQUIRED INTANGIBLE ASSETS, NET (continued)

The Group recorded amortization expense as follows:

	December 31,		
	2005	2006	2007
Cost of revenues	\$ 382,359	\$ 3,207,079	\$ 16,113,970
Selling and marketing	55,478	2,567,002	8,639,094
Total	\$ 437,837	\$ 5,774,081	\$ 24,753,064

The Group will record amortization expense of \$33,652,914, \$32,149,023, \$28,747,413, \$21,187,998 and \$14,504,364 for the years ending December 31, 2008, 2009, 2010, 2011 and 2012, respectively.

7. EQUIPMENT, NET

Equipment, net consists of the following:

	December 31,		
	2005	2006	2007
Media display equipment	\$ 40,191,968	\$ 77,088,464	\$ 103,036,365
Computers and office equipment	1,267,696	3,360,590	8,674,466
Leasehold improvements	537,130	713,524	948,828
Vehicles	349,575	658,825	1,259,605
Total	\$ 42,346,369	\$ 81,821,403	\$ 113,919,264
Less: accumulated depreciation and amortization	(5,975,119)	(22,767,910)	(43,339,838)
Net book value	36,371,250	59,053,493	70,579,426
Assembly in progress	7,323,638	11,195,831	24,898,900
Total	\$ 43,694,888	\$ 70,249,324	\$ 95,478,326

Depreciation expense for 2005, 2006 and 2007 was \$4,489,179, \$13,737,441 and \$19,444,440 respectively.

Assembly in process relates to the assembly of flat-panel television screens. No provision for depreciation is made on assembly in process until such time as the relevant assets are completed and put into use.

For the years ended December 31, 2005, 2006 and 2007
(In U.S. dollars except share data and unless otherwise stated)

8. SHORT-TERM LOANS

	December 31,		
	2005	2006	2007
Short-term bank loan (a)	\$ 991,301	\$ —	\$ —
Other loan due to ex-shareholders of Framedia (b)	—	2,769,459	—
Total	\$ 991,301	\$ 2,769,459	\$ —

(a) The Group had \$991,301, \$nil and \$nil outstanding under line of credit arrangement as of December 31, 2005, 2006 and 2007, respectively. The amount available for additional borrowings under this line of credit at December 31, 2005, 2006 and 2007 was \$nil, \$2,106,516 and \$nil, respectively. The line of credit was subject to an interest rate of 10%, discounted by an amount equal to the six month loan interest rate of The People's Bank of China. As of December 31, 2005, the line of credit bore interest at 4.698% per annum. The Group recorded interest expense under the line of credit in 2005, 2006 and 2007 of \$49,873, \$305,287 and \$25,269 respectively.

(b) At December 31, 2006, the short-term loans from ex-shareholders of Framedia are non-interest bearing, all of which are repayable within one year.

9. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities consist of the following:

	December 31,		
	2005	2006	2007
Accrued sales commissions	\$ 2,583,270	\$ 5,813,761	\$ 15,631,196
Other accrued expenses	577,863	1,844,781	4,859,205
Other taxes payables	3,037,443	7,451,787	15,870,893
Advance from customers	3,387,224	6,381,032	31,049,894
Accrued employee payroll and welfare	1,059,717	1,465,142	6,145,823
Payables and other liabilities related to acquisitions	99,130	4,530,745	90,214,133
Amount due to ex- shareholders of subsidiary	200,848	—	4,207,387
Withholding individual PRC income tax	—	9,046,576	15,092,588
Others	801,407	2,140,351	7,241,827
Total	\$ 11,746,902	\$ 38,674,175	\$ 190,312,946

For the years ended December 31, 2005, 2006 and 2007
(In U.S. dollars except share data and unless otherwise stated)

10. SHARE-BASED COMPENSATION

In June 2003, the Group adopted the 2003 Employee Share Option Scheme ("2003 Plan") under which not more than 30% of issued share capital was reserved for grants of options. In May 2005, the Group adopted the 2005 Share Option Plan ("2005 Plan"), under which the amount of options that may issue has been reduced to an aggregate of 20% of issued share capital, including the 10.87% already granted under the 2003 Plan. In addition, during the three years after the adoption of our 2005 Plan, the Group may issue no more than 5% of issued share capital for grants of options. In October 2006, the Group further adopted the 2006 Employee Share Option Plan ("2006 Plan"), under which the Group may issue no more than 3.6% of issued ordinary shares for grant of options. In November 2007, the Group's 2007 Employee Share Option Scheme ("2007 Plan") was authorized, under which the Group is authorized to grant option to purchase up to 5% of the Group's issued and outstanding ordinary shares from time to time in the three years following the date of enactment of 2007 Plan. The option plans are intended to promote the success and to increase shareholder value by providing an additional means to attract, motivate, retain and reward selected directors, officers, employees and third-party consultants and advisors.

In 2005, 2006 and 2007, options to purchase 23,843,630, 14,800,000 and 10,892,685 ordinary shares were authorized and granted under the option plans, respectively. Under the terms of each option plan, options are generally granted at prices equal to the fair market value as determined by the Board of Directors, expire 10 years from the date of grant and generally vest over three years while certain options granted vest over one year. Subsequent to the initial public offering, options were generally granted at the fair market value of the ordinary shares at the date of grant. As of December 31, 2005, 2006 and 2007, options to purchase 49,051,830, 37,515,150 and 39,890,055 ordinary shares were granted to employees and non-employees and remained outstanding. Share options granted to external consultants and advisors in exchange for services were expensed based on the estimated fair value utilizing the Black-Scholes option pricing model.

The fair value of options granted is estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

	2005	2006	2007
Option granted to employees:			
Average risk-free rate of return	3.10–4.43%	4.74%–4.80%	4.02%–4.68%
Weighted average expected option life	2–3 years	2 years	2 years
Volatility rate	30.49%–36.2%	40.0–53.7%	50.61%–53.05%
Dividend yield	0%	0%	0%

For the years ended December 31, 2005, 2006 and 2007
(In U.S. dollars except share data and unless otherwise stated)

10. SHARE-BASED COMPENSATION (continued)

Prior to the initial public offering in July 2005, the derived fair value of the ordinary shares underlying the options was determined by management by factoring into their consideration a retrospective valuation conducted by a third party valuation firm using a generally accepted valuation methodology, the guideline companies approach, which incorporates certain assumptions including the market performance of comparable listed companies as well as the financial results and growth trends of the Group, to derive the total equity value of the Group. The valuation model allocated the equity value between the ordinary shares and the preference shares and determined the fair value of ordinary shares based on two assumptions: where conversion into ordinary shares would result in a higher economic value, preference shares were treated as if they had converted into ordinary shares; and preference shares that have a value higher than their conversion price were assigned a value that took into consideration their liquidation preference.

The ordinary shares were assigned a value equal to their pro rata share of the residual amount, if any, that remained after consideration of the liquidation preference of preferred shares with a value below their conversion price. Also prior to July 2005, the expected volatilities are estimated based on the average volatility of comparable companies with the time period commensurate with the expected time period. Following the initial public offering, the expected volatilities were estimated based on the historical volatility. The expected term of options granted represents the period of time that options granted are expected to be outstanding. The risk-free interest rate assumption is determined using the Federal Reserve nominal rates for U.S. Treasury zero-coupon bonds with maturities similar to those of the expected term of the award.

The weighted average fair value of options granted for the years ended December 31, 2005, 2006 and 2007 was \$0.39, \$1.77 and \$3.56 respectively. A summary of the share option activities are as follows:

	Weighted Number of shares	Weighted average exercise price	Remaining contract term (in years)	Aggregate intrinsic value
Options outstanding at January 1, 2007	37,515,150	\$ 2.97		
Granted	10,892,685	\$ 10.92		
Forfeited	(483,500)	\$ 5.72		
Exercised	(8,034,280)	\$ 2.46		
Options outstanding at December 31, 2007	39,890,055	\$ 5.21	8.35 years	\$ 245,913,534
Options vested or expected to vest at December 31, 2007	37,857,177	\$ 5.03	8.30 years	\$ 240,274,250
Options exercisable at December 31, 2007	16,261,178	\$ 1.94	7.40 years	\$ 153,291,942

For the years ended December 31, 2005, 2006 and 2007
(In U.S. dollars except share data and unless otherwise stated)

10. SHARE-BASED COMPENSATION (continued)

The total intrinsic value of options exercised during the years ended December 31, 2005, 2006 and 2007, was \$nil, \$146,119,111 and \$34,693,538 respectively.

As of December 31, 2007, there was \$36,784,619 in total unrecognized compensation expense related to unvested share-based compensation arrangements, which is expected to be recognized over a weighted-average period of 1.36 years.

11. INCOME TAXES

Cayman Islands

Under the current laws of the Cayman Islands, the Company is not subject to tax on income or capital gain. In addition, upon payments of dividends by the Company to its shareholders, no Cayman Islands withholding tax will be imposed.

British Virgin Islands

The Group's subsidiaries incorporated in the BVI are not subject to taxation.

Hong Kong

Focus Media (China) Holding Ltd. is subject to Hong Kong profit tax at a rate of 17.5% on its assessable profit. No Hong Kong profit tax has been provided as the Group does not have assessable profit that is earned in or derived from Hong Kong during the years presented.

PRC

Pursuant to the PRC Income Tax Laws, the Company's subsidiaries and VIEs are generally subject to Enterprise Income Taxes ("EIT") at a statutory rate of 33%, which comprises 30% national income tax and 3% local income tax. Some of the Company's subsidiaries and VIEs are newly incorporated enterprises engaged in the advertising industry which are entitled to a two-year tax exemption holiday, commencing from the first operating year. Some of the subsidiaries of the Company, e.g. Beijing Focus Media Wireless Co., Ltd., and Beijing Shi Ji Zhong Kai Technology Co., Ltd are qualified new technology enterprises. Under PRC Income Tax Laws they are subject to a preferential tax rate of 15%, plus a three-year tax exemption followed by three years with a 50% reduction in the tax rate, starting from the first operating year.

For the years ended December 31, 2005, 2006 and 2007
(In U.S. dollars except share data and unless otherwise stated)

11. INCOME TAXES (continued)

PRC (continued)

On March 16, 2007, the PRC National People's Congress passed the China Corporate Income Tax Law ("the New Law"), which became effective January 1, 2008 and applies a uniform income tax rate for both foreign invested enterprises and domestic enterprise. The New Law provides a five-year transition period from its effective date for those enterprises which were established before the promulgation date of the new tax law and which were entitled to a preferential tax treatment such as a reduced tax rate or a tax holiday. On December 26, 2007, the State Council issued the Notice of the State Council Concerning Implementation of Transitional Rules for Enterprise Income Tax Incentives ("Circular 39"). Based on Circular 39, certain specifically listed categories of enterprises which enjoyed a preferential tax rate of 15% are eligible for a graduated rate increase to 25% over the 5-year period beginning from January 1, 2008. Specifically, the applicable rates under such an arrangement for such enterprises would be 18%, 20%, 22%, 24% and 25% for 2008, 2009, 2010, 2011, 2012 and thereafter, respectively. Preferential tax treatments will continue to be granted to industries and projects that are strongly supported and encouraged by the state, and enterprises that qualify as "new and high technology enterprises strongly supported by the state" under the new law will be entitled to a 15% preferential enterprise income tax rate.

Most of the Company's subsidiaries and VIEs are expected to transition from 33% to 25% starting from January 1, 2008. Those that currently enjoy a lower tax rate of 15% as a high-tech company under the old law will transition to the uniform tax rate of 25% from 2008 unless the company obtains the "new and high technology enterprise" status under the new tax law. The Group has thus applied the 25% rate in calculating its deferred tax balances.

In July 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109" ("FIN 48"), which clarifies the accounting and disclosure for uncertainty in tax positions, as defined in that statement. FIN 48 prescribes a more-likely-than-not threshold for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This interpretation also provides guidance on de-recognition of income tax assets and liabilities, classification of current and deferred income tax assets and liabilities, accounting for interest and penalties associated with tax positions, accounting for income taxes in interim periods and income tax disclosures.

The Group adopted the provisions of FIN 48 effective January 1, 2007 and estimated the cumulative effect on adoption of FIN48 to be a reduction of consolidated retained earning as of January 1, 2007 of approximately \$3.9 million, including interest and penalty, with a corresponding increase in the liability for uncertain tax positions. The Group has elected to classify interest and/or penalties relating to income tax matters within income tax expenses. The amount of penalties and interest as of December 31, 2007 is immaterial. The Group further provided an additional FIN48 reserve of approximately \$4.2 million in connection with tax uncertainties during the year ended December 31, 2007. The Group does not anticipate any significant increases or decreases to its liability for unrecognized tax benefits within the next 12 months.

Balance at January 1, 2007	3,912,340
Additions based on tax position related to the current year	4,234,066
Translation adjustment	86,307
Balance at December 31, 2007	8,232,713

For the years ended December 31, 2005, 2006 and 2007
(In U.S. dollars except share data and unless otherwise stated)

11. INCOME TAXES (continued)

PRC (continued)

According to the PRC Tax Administration and Collection Law, the statute of limitations is generally three years if the underpayment of taxes is due to computational errors made by the taxpayer. The statute of limitations will be extended to five years under special circumstances, which are not clearly defined, but an underpayment of tax liability exceeding RMB100,000 (approx. \$14,000 under the current exchange rate) is specifically listed as a special circumstance. In the case of a transfer pricing related adjustment, the statute of limitations is 10 years. There is no statute of limitations in the case of tax evasion. The status of limitations in Hongkong is 6 years.

Composition of Income Tax Expense

The current and deferred portion of income tax expense (benefit) included in the consolidated statements of operations for the years ended December 31 is as follows:

	2005	2006	2007
Current income tax expense	\$ 715,117	\$ 1,106,921	\$ 11,764,813
Deferred income tax expense (benefit)	(20,664)	(63,383)	(719,248)
Income tax expense	\$ 694,453	\$ 1,043,538	\$ 11,045,565

Reconciliation of the Differences Between Statutory Tax Rate and the Effective Tax Rate

Reconciliation between total income tax expense and that amount computed by applying the PRC statutory income tax rate of 33% to income before taxes is as follows:

	Years ended December 31,		
	2005	2006	2007
Statutory rate	33.0%	33.0%	33.0%
Effect of different tax rate of group entities operating in other jurisdiction	0.0%	2.4%	5.2%
Effect of different tax rates applicable to the subsidiaries and VIEs	0.1%	3.5%	0.7%
Effect of FIN48 unrecognized tax benefits	0.0%	0.0%	2.6%
Effect of tax holiday	-31.6%	-39.1%	-37.4%
Effect of non-deductible expenses	1.1%	2.2%	2.9%
Change in valuation allowance	0.2%	-0.7%	1.4%
Effective tax rate	2.8%	1.3%	7.0%

For the years ended December 31, 2005, 2006 and 2007
(In U.S. dollars except share data and unless otherwise stated)

11. INCOME TAXES (continued)

Reconciliation of the Differences Between Statutory Tax Rate and the Effective Tax Rate (continued)

The following table sets forth the effects of the tax holidays granted to the entities of the Group for the periods presented:

	Years ended December 31,		
	2005	2006	2007
Tax holiday effect	\$ 23,212,976	\$ 99,641,998	\$ 178,521,625
Net income per share effect — basic	\$ 0.09	\$ 0.20	\$ 0.30
Net income per share effect — diluted	\$ 0.06	\$ 0.19	\$ 0.29

The principal components of the Group's deferred income tax assets/liabilities are as follows:

	December 31,		
	2005	2006	2007
Deferred tax assets:			
Net operating loss carry forwards	\$ 545,208	\$ 2,317,316	\$ 5,076,326
Accrued expenses temporarily non-deductible	46,695	242,106	206,670
Pre-operating expenses	80,102	—	—
Bad debt provision	130,897	704,429	1,472,981
Total deferred tax assets	\$ 802,902	\$ 3,263,851	\$ 6,755,977
Valuation allowance on deferred tax assets	(59,988)	(2,438,008)	(5,615,737)
Net deferred tax assets	\$ 742,914	\$ 825,843	\$ 1,140,240
Deferred tax liabilities:			
Intangible asset basis difference	\$ —	\$ 3,303,110	\$ 7,620,504
Total deferred tax liabilities	\$ —	\$ 3,303,110	\$ 7,620,504

A significant portion of the deferred tax assets recognized relate to net operating loss carry forwards. As of December 31, 2007, the Group had tax losses of \$20,236,946 as of December 31, 2007 to be carried forward against future taxable income, which will expire if unused in the years ending December 31, 2009 through 2012. The Group operates through multiple subsidiaries and the valuation allowance is considered on each individual subsidiary basis. Where a valuation allowance was not recorded, the Group believes that there was sufficient positive evidence to support its conclusion not to record a valuation allowance as it expects to generate sufficient taxable income in the future.

The valuation allowance in 2006 and 2007 has been increased in connection with an increase in net operating losses for which the Group believes it cannot generate future taxable income sufficient to recognize the income tax benefit.

Undistributed earnings of the Group's PRC subsidiaries of approximately \$348 million at December 31, 2007 are considered to be indefinitely reinvested and, accordingly, no provision for PRC dividend withholding tax has been provided thereon. Upon distribution of those earnings in the form of dividends or otherwise in the future, the Group would be subject to the then applicable PRC tax laws and regulations.

For the years ended December 31, 2005, 2006 and 2007
(In U.S. dollars except share data and unless otherwise stated)

12. NET INCOME PER SHARE

The following table sets forth the computation of basic and diluted income per share for the years indicated:

	Years ended December 31,		
	2005	2006	2007
Income attributable to holders of ordinary shares (numerator):	\$ 23,547,651	\$ 83,197,732	\$144,435,549
Shares (denominator):			
Weighted average ordinary shares outstanding used in computing basic income per share	252,128,545	505,411,079	590,387,396
Plus weighted average preference shares outstanding	84,119,675	—	—
Plus incremental weighted average ordinary shares from assumed conversions of stock option using treasury stock method	29,689,874	16,125,302	17,939,054
Weighted average ordinary shares outstanding used in computing diluted income per share	365,938,094	521,536,381	608,326,450
Net income per share — basic	\$ 0.09	\$ 0.16	\$ 0.24
Net income per share — diluted	\$ 0.06	\$ 0.16	\$ 0.24

For the above mentioned years, the Group had securities outstanding which could potentially dilute basic earnings per share in the future, but which were excluded from the computation of diluted net income per share in the years presented, as their effects would have been anti-dilutive. Such outstanding securities consist of the following:

	Years ended December 31,		
	2005	2006	2007
Outstanding options to purchase ordinary shares	49,051,830	37,515,150	39,890,055

13. ORDINARY SHARES

- (1) On May 31, 2005, shareholders of the Group approved a 200-for-1 split of the Company's shares, with immediate effect. The 200-for-1 share split of the Company's shares has been retroactively applied to all periods presented.
- (2) Upon initial public offering on July 13, 2005, the Group issued 77,575,000 ordinary shares, for US\$1.7 per ordinary share, for total proceeds of US\$118,174,130, net of offering expenses.
- (3) On January 1, 2006, the Group issued 22,157,003 ordinary shares as partial consideration of the acquisition of Infoachieve (Note 3).

For the years ended December 31, 2005, 2006 and 2007
(In U.S. dollars except share data and unless otherwise stated)

13. ORDINARY SHARES (continued)

- (4) On January 27, 2006, the Group issued 15,000,000 ordinary shares, for US\$4.35 per ordinary share, for total proceeds of US\$61,783,300, net of offering expenses.
- (5) On February 28, 2006, the Group issued 77,000,000 ordinary shares as partial consideration of the acquisition of all the outstanding ordinary shares of Target Media (Note 3).
- (6) On March 1, 2006, the Group issued 74,720 ordinary shares related to an acquisition (Note 3).
- (7) On May 30, 2006, the Group issued 22,470 ordinary shares related to an acquisition (Note 3).
- (8) On June 16, 2006, the Group issued 16,000,000 ordinary shares, for US\$5.4 per ordinary share, for total proceeds of US\$80,967,593, net of offering expenses.
- (9) During the year ended December 31, 2006, the Group issued 26,336,680 ordinary shares pursuant to share-based compensation plans upon exercise of options.
- (10) On January 25, 2007, the Group issued 15,000,000 ordinary shares, for US\$7.711 per ordinary share, for total proceeds of US\$114,870,403, net of offering expenses.
- (11) On March 28, 2007, the Group issued 19,969,080 ordinary shares as partial consideration of the acquisition of Allyes Information Technology Company Limited (Note 3).
- (12) In June 2007, the Group issued 37,330,619 ordinary shares as earn-out consideration for the acquisitions of Framedia and Dotad (Note 3).
- (13) On November 7, 2007, the Group issued 25,000,000 ordinary shares, for US\$12.56 per ordinary share, for total proceeds of \$312,574,308, net of offering expenses.
- (14) During the year ended December 31, 2007, the Group issued 8,034,280 ordinary shares pursuant to share-based compensation plans upon exercise of options.

For the years ended December 31, 2005, 2006 and 2007
(In U.S. dollars except share data and unless otherwise stated)

14. MAINLAND CHINA CONTRIBUTION PLAN AND PROFIT APPROPRIATION

Full time employees of the Group in the PRC participate in a government-mandated multiemployer defined contribution plan pursuant to which certain pension benefits, medical care, unemployment insurance, employee housing fund and other welfare benefits are provided to employees. PRC labor regulations require the Group to accrue for these benefits based on certain percentages of the employees' salaries. The total contribution for such employee benefits were \$619,831, \$2,326,895 and \$4,354,955 for the years ended December 31, 2005, 2006 and 2007, respectively.

Pursuant to laws applicable to entities incorporated in the PRC, the Group subsidiaries in the PRC must make appropriations from after-tax profit to non-distributable reserve funds. These reserve funds include one or more of the following: (i) a general reserve, (ii) an enterprise expansion fund and (iii) a staff bonus and welfare fund. Subject to certain cumulative limits, the general reserve fund requires annual appropriations of 10% of after tax profit (as determined under accounting principles generally accepted in the PRC at each year-end) until such cumulative appropriation reaches 50% of the registered capital; the other fund appropriations are at the Group's discretion. These reserve funds can only be used for specific purposes of enterprise expansion and staff bonus and welfare and are not distributable as cash dividends. For the years ended December 31, 2005, 2006 and 2007, the Group made total appropriations of \$98,729, \$650,851 and \$141,121 respectively.

15. COMMITMENTS AND CONTINGENCIES

(a) Leases Commitments

The Group has entered into certain leasing arrangements relating to the placement of the flat-panel television screens in various locations where the Group operates the networks and in connection with the lease of the Group's office premises. Rental expense under operating leases for 2005, 2006 and 2007 were \$15,481,200, \$50,106,121 and \$85,733,483 respectively.

Future minimum lease payments under non-cancelable operating lease agreements were as follows:

	For the year ended December 31,
2008	\$ 102,055,984
2009	59,026,176
2010	25,497,410
2011	11,560,511
2012 and thereafter	9,212,178
Total	\$ 207,352,259

For the years ended December 31, 2005, 2006 and 2007
(In U.S. dollars except share data and unless otherwise stated)

15. COMMITMENTS AND CONTINGENCIES (continued)

(b) Legal Proceedings

The Group is a defendant in ongoing lawsuits as described below:

- On November 27, 2007, Eastriver Partners, Inc. filed a purported class action lawsuit in the United States District Court for the Southern District of New York against the Group and the underwriters of the Group's offering filed in November 2007.
- On December 21, 2007, Scott Bauer filed a purported class action lawsuit in the United States District Court for the Southern District of New York against the Group, certain of the Group's officers and directors, and the underwriters of the Group's offering filed in November 2007.

Both complaints allege that the Group's registration statement on Form F-1 on November 1, 2007, as amended, and the related prospectus contained inaccurate statements of material fact. The Group has meritorious defenses to the claims alleged and intend to defend against these lawsuits vigorously. The Group is unable to estimate the possible loss or possible range of loss, if any, associated with the resolution of these lawsuits. An unfavorable outcome from these lawsuits could have a material adverse effect on our consolidated financial position, results of operations, or cash flows in the future.

16. SEGMENT INFORMATION

The Group is mainly engaged in operating an out-of-home advertising network in the PRC using flat-panel television advertising displays located in high traffic commercial locations and in-store areas. The Group also provides in-elevator poster frame advertising services, mobile handset advertising services and internet advertising services.

The Group's chief operating decision maker has been identified as the Chief Executive Officer ("CEO"), who reviews consolidated results when making decisions about allocating resources and assessing performance of the Group. The Group uses the management approach to determine the operating segments. The management approach considers the internal organization and reporting used by the Group's chief operating decision maker for making decisions, allocating resources and assessing the performance. The Group has four operating segments and determined that it has four reporting segments, which are out-of-home television advertising services (consists of commercial location advertising network and in-store advertising network), in-elevator poster frames, mobile handset advertising and internet advertising. These segments all derive their revenues from the sale of advertising services.

For the years ended December 31, 2005, 2006 and 2007
(In U.S. dollars except share data and unless otherwise stated)

16. SEGMENT INFORMATION (continued)

The Group's chief operating decision maker does not assign assets to these segments. Consequently, it is not practical to show assets by reportable segments. Prior to 2006, the Group only had a single operating segment, out-of-home television advertising services. The in-elevator poster frame advertising services and mobile handset advertising services were the result of acquisitions made in 2006. The internet advertising services segment was the result of the acquisitions made in 2007. The following table presents selected financial information relating to the Group's segments:

2007:

	Out-of-home advertising services	In-elevator poster frame advertising services	Mobile handset advertising services	Internet advertising services	Eliminations	Total
Net revenue — external	\$ 249,239,836	\$ 85,471,957	\$ 46,909,008	\$ 124,938,969	\$ —	\$ 506,559,770
Net revenue — intersegment	741,764	770,168	—	—	(1,511,932)	—
Total net revenues	249,981,600	86,242,125	46,909,008	124,938,969	(1,511,932)	506,559,770
Cost of revenue — external	103,925,053	28,086,215	23,193,873	93,237,248	—	248,442,389
Cost of revenue — intersegment	770,168	—	—	741,764	(1,511,932)	—
Total cost of revenues	104,695,221	28,086,215	23,193,873	93,979,012	(1,511,932)	248,442,389
Gross profit	145,286,379	58,155,910	23,715,135	30,959,957	—	258,117,381
Interest income	9,095,303	125,421	134,309	422,622	—	9,777,655
Interest expense	16,024	921	—	8,324	—	25,269
Depreciation and amortization	24,170,981	8,880,046	4,212,953	6,933,524	—	44,197,504
Income tax expense	5,551,130	1,088,231	1,938,393	2,467,811	—	11,045,565
Net income	\$ 83,792,458	\$ 34,105,815	\$ 14,148,625	\$ 12,388,651	\$ —	\$ 144,435,549

For the years ended December 31, 2005, 2006 and 2007
(In U.S. dollars except share data and unless otherwise stated)

16. SEGMENT INFORMATION (continued)

2006:

	Out-of-home advertising services	In-elevator poster frame advertising services	Mobile handset advertising services	Eliminations	Total
Net revenue — external	\$ 160,900,265	\$ 40,904,235	\$ 10,100,965	\$ —	\$ 211,905,465
Net revenue — intersegment	—	245,274	—	(245,274)	—
Total net revenues	160,900,265	41,149,509	10,100,965	(245,274)	211,905,465
Cost of revenue — external	61,706,462	13,622,059	6,051,846	—	81,380,367
Cost of revenue — intersegment	245,274	—	—	(245,274)	—
Total cost of revenues	61,951,736	13,622,059	6,051,846	(245,274)	81,380,367
Gross profit	98,948,529	27,527,450	4,049,119	—	130,525,098
Interest income	4,419,864	123,740	17,194	—	4,560,798
Interest expense	304,294	52	941	—	305,287
Depreciation and amortization	15,067,829	3,599,827	843,896	—	19,511,552
Income tax expense	1,060,314	103,434	(120,210)	—	1,043,538
Net income	\$ 60,968,695	\$ 20,006,067	\$ 2,222,970	\$ —	\$ 83,197,732

Geographic Information

The Group operates in the PRC and all of the Group's long lived assets are located in the PRC.

Major Customers

As of December 31, 2005, 2006 and 2007, there were no customers who accounted for 10% or more of the Group's net revenues or accounts receivables.

Major Service lines

The Group derives revenues from the following major service lines:

	For the year ended December 31,					
	2005		2006		2007	
		% of total revenues		% of total revenues		% of total revenues
Net revenues						
Commercial location network	\$ 61,434,760	90.0%	\$ 132,061,143	62.3%	\$ 220,681,113	43.6%
In-store network	5,468,919	8.0%	26,907,592	12.7%	27,444,339	5.4%
Poster frame network	—	—	40,904,235	19.3%	85,471,957	16.9%
Mobile handset network	—	—	10,100,965	4.7%	46,909,008	9.3%
Internet advertising	—	—	—	—	124,938,969	24.7%
Advertising service revenue	66,903,679	98.0%	209,973,935	99.0%	505,445,386	99.9%
Equipment revenue	1,325,234	2.0%	945,606	0.5%	774,404	0.1%
Franchise revenue	—	—	985,924	0.5%	339,980	0.0%
Total revenues	\$ 68,228,913	100.0%	\$ 211,905,465	100.0%	\$ 506,559,770	100.0%

For the years ended December 31, 2005, 2006 and 2007
(In U.S. dollars except share data and unless otherwise stated)

17. RELATED PARTY TRANSACTIONS

Details of advertising service revenue from related parties for the years ended December 31, 2005, 2006 and 2007 are as follows:

Name of related parties	Director interested	Year ended December 31,		
		2005	2006	2007
Shanghai Everease Advertising & Communication Ltd. ("Everease")	Jason Nanchun Jiang	\$ 1,552,039	\$ 7,764,977	\$ 3,132,954
Multimedia Park Venture Capital	Jimmy Wei Yu	2,330,945	3,885,546	104
Shanghai Jobwell Business Consulting Co., Ltd.	Jimmy Wei Yu	1,050,258	1,382,695	—
Shanghai Wealove Wedding Service Co., Ltd.	Jimmy Wei Yu	757,850	1,122,945	—
Shanghai Wealove Business Consulting Co., Ltd.	Jimmy Wei Yu	—	671,488	—
Shanghai Hetong Network Technology Co., Ltd.	Jimmy Wei Yu	908,100	982,527	—
Shanghai Shengchu Advertising Agency Co., Ltd.	Jimmy Wei Yu	1,646,120	3,230,040	44,542
Beijing Sina Internet Information Services Co., Ltd.	Charles Cao	—	190,563	1,095,814
Beijing Sohu New-age Information Technology Co., Ltd.	Daqing Qi	—	119,768	608,150
Home-Inn Hotel Management (Beijing) Co., Ltd	Neil Nanpeng Shen	—	78,742	82,356
Ctrip Travel Information Technology (Shanghai) Co., Ltd.	Neil Nanpeng Shen	264,120	178,933	—
51.com	Neil Nanpeng Shen	—	—	19,611
Qihoo.com	Neil Nanpeng Shen	—	—	12,151
UUSEE	Neil Nanpeng Shen	—	—	27,789
Yadu Huang Ke Technology Co., Ltd.	Fuming Zhuo	—	—	243,628
Total		\$ 8,509,432	\$ 19,608,224	\$ 5,267,099

For the years ended December 31, 2005, 2006 and 2007
(In U.S. dollars except share data and unless otherwise stated)

17. RELATED PARTY TRANSACTIONS (continued)

Details of advertising space leasing costs charged, net of agency rebates received or receivables from gateway websites, of those whom are the related parties, for the years ended December 31, 2005, 2006 and 2007 are as follows:

Name of related parties	Director interested	Year ended December 31,		
		2005	2006	2007
Beijing Sina Internet Information Services Co., Ltd.	Charles Cao	\$ —	\$ —	\$ 24,755,004
Beijing Sohu New-age Information Technology Co., Ltd.	Daqing Qi	—	—	14,596,893
Ctrip Travel Information Technology (Shanghai) Co., Ltd.	Neil Nanpeng Shen	—	—	130,230
51.com	Neil Nanpeng Shen	—	—	204,612
Qihoo.com	Neil Nanpeng Shen	—	—	305,413
UUSEE	Neil Nanpeng Shen	—	—	15,929
E-House (China) Holdings Limited	Neil Nanpeng Shen	—	—	2,008
Total		\$ —	\$ —	\$ 40,010,089

For the years ended December 31, 2005, 2006 and 2007
(In U.S. dollars except share data and unless otherwise stated)

17. RELATED PARTY TRANSACTIONS (continued)

Details of amounts due from related parties as of December 31, 2005, 2006 and 2007 are as follows:

Name of related parties	Note	Director interested	December 31,		
			2005	2006	2007
Shanghai Everease Advertising & Communication Ltd. ("Everease")	(a)	Jason Nanchun Jiang	\$ 572,525	\$ 6,331,549	\$ 133,543
Multimedia Park Venture Capital	(a)	Jimmy Wei Yu	330,700	12,705	—
Shanghai Jobwell Business Consulting Co., Ltd.	(a)	Jimmy Wei Yu	546,207	—	—
Shanghai Wealove Wedding Service Co., Ltd.	(a)	Jimmy Wei Yu	662,954	—	—
Shanghai Hetong Network Technology Co., Ltd.	(a)	Jimmy Wei Yu	533,469	—	—
Shanghai Shengchu Advertising Agency Co., Ltd.	(a)	Jimmy Wei Yu	474,351	403,889	—
Beijing Sina Internet Information Services Co., Ltd.	(a)	Charles Cao	—	—	3,385,671
Beijing Sohu New-age Information Technology Co., Ltd.	(a)	Daqing Qi	—	—	1,198,429
Ctrip Travel Information Technology (Shanghai) Co., Ltd.	(a)	Neil Nanpeng Shen	—	—	89,946
51.com	(a)	Neil Nanpeng Shen	—	—	105,147
UUSEE	(a)	Neil Nanpeng Shen	—	—	10,952
Home-Inn Hotel Management (Beijing) Co., Ltd.	(a)	Neil Nanpeng Shen	—	39,699	—
Yadu Huang Ke Technology Co., Ltd.	(a)	Fuming Zhuo	—	—	150,158
Qihoo.com	(a)	Neil Nanpeng Shen	—	—	17,683
David Yu	(b)	David Yu	—	1,064,947	—
Total			\$ 3,120,206	\$ 7,852,789	\$ 5,091,529

For the years ended December 31, 2005, 2006 and 2007
(In U.S. dollars except share data and unless otherwise stated)

17. RELATED PARTY TRANSACTIONS (continued)

Note (a) — These amounts represent trade receivables for advertising services provided.

Note (b) — The amount represents a payment due from the ex-shareholder of Target Media for an indemnification of a contingent liability which arose after the acquisition. This amount was paid out in cash in 2007.

Details of amounts due to related parties as of December 31, 2005, 2006 and 2007 are as follows:

Name of related parties	Note	Director interested	December 31,		
			2005	2006	2007
Beijing Sina Internet Information Services Co., Ltd.	(d)	Charles Cao	\$ —	\$ —	\$ 12,491,999
Beijing Sohu New-age Information Technology Co., Ltd.	(d)	Daqing Qi	—	—	301,520
51.com	(d)	Neil Nanpeng Shen	—	—	179,750
UUSEE	(d)	Neil Nanpeng Shen	—	—	3,696
Home-Inn Hotel Management (Beijing) Co., Ltd	(d)	Neil Nanpeng Shen	—	—	171
Tan Zhi	(c)	Tan Zhi	—	345,768	—
Total			\$ —	\$ 345,768	\$ 12,977,136

Note (c) — The amount represents the amount due to the president of Focus Media for operating funds of Framedia. The loan was non-interest bearing and was fully repaid in 2007.

Note (d) — The amounts represent trade payables for advertising services purchased.

Other Related Party Transactions

For each of the years ended December 31, 2005, 2006 and 2007, office rentals were paid to Multimedia Park Venture Capital approximately amounting to \$395,083, \$476,902 and \$690,018 respectively.

In 2006, Everease charged the Group \$47,804 for providing administration services.

In March 2006, Weiqiang Jiang, father of Jason Nanchun Jiang, provided a short-term loan to the Group of approximately \$2.5 million to relieve a temporary shortage of Renminbi the Group experienced at that time. The loan was unsecured and non-interest bearing. At the end of June 2006, the Group paid \$2.5 million to Everease and they remitted this fund to Weiqiang Jiang on our behalf to repay the loan outstanding.

For the years ended December 31, 2005, 2006 and 2007
(In U.S. dollars except share data and unless otherwise stated)

18. RESTRICTED NET ASSETS

Relevant PRC statutory laws and regulations permit payments of dividends by the Group's PRC subsidiaries only out of their retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. In addition, PRC laws and regulations require that annual appropriations of 10% of after-tax income should be set aside prior to payment of dividends as a general reserve fund. As a result of these PRC laws and regulations, the Group's PRC subsidiaries and PRC affiliates are restricted in their ability to transfer a portion of their net assets to Focus Media Holding in the form of dividends, loans or advances, which restricted portion amounted to approximately \$447,557,373 as of December 31, 2007.

19. SUBSEQUENT EVENT

In January 2008, the Group completed the acquisition of CGEN Digital Media Company Limited, or CGEN, a Cayman Islands company, which operates hyper-market advertising marketing agency services through its PRC VIEs. CGEN is the largest hyper-market advertising agency in China. The purchase price consideration was \$168,437,500 in cash. Additional consideration, contains both of cash and ordinary shares is issuable, contingent upon CGEN meeting certain earnings targets during the two year period from February 1, 2008 to January 31, 2010.

In the first quarter of 2008, the Group completed acquisitions of six companies that primarily provide in-elevator poster frame advertising and internet advertising services, for which consideration is contingent upon the achievement of certain earnings targets over the next one to three fiscal years. The Group also made an advance payment of \$11 million, which will be deducted from the contingent purchase price consideration.

In January, 2008, the Group entered into a share purchase agreement to acquire 20% equity interests in Yanhuang Health Media Limited, a leading LCD advertising operator targeting hospitals and healthcare locations in China, for cash consideration of \$5 million and the lease agreements and LCD display equipment that the Group has operated in hospitals and healthcare locations.

In March 2008, as a result of uncertainty in the mobile handset advertising industry in the PRC, there was a triggering event which required the Group to reevaluate the carrying value of the goodwill and assets of the mobile handset advertising segment. The Group undertook a business restructuring in April 2008 to amend their strategic business plans and is working on the calculations for impairments and the costs related to exit activities.

For the years ended December 31, 2005, 2006 and 2007
(In U.S. dollars except share data and unless otherwise stated)

19. SUBSEQUENT EVENT (continued)

Appendix 1

Subsidiaries of Focus Media Holding Limited

The following table sets forth information concerning our direct subsidiaries:

Subsidiary	Place of Incorporation	Percentage of ownership
Focus Media (China) Holding Ltd.	Hong Kong	100%
Focus Media Technology (Shanghai) Co., Ltd.	PRC	100%
Perfect Media Holding Ltd.	British Virgin Islands ("BVI")	100%
Focus Media Qingdao Holding Ltd.	BVI	100%
Focus Media Dalian Holding Ltd.	BVI	100%
Focus Media Changsha Holding Ltd.	BVI	100%
Focus Media Digital Information Technology (Shanghai) Co., Ltd.	PRC	100%
New Focus Media Technology (Shanghai) Co., Ltd.	PRC	100%
Sorfari Holdings Limited	BVI	100%
Focus Media Tianjin Limited	BVI	80%
Capital Beyond Limited	BVI	100%
Shanghai New Focus Media Advertisement Co., Ltd.	PRC	90%
Shanghai New Focus Media Agency Co., Ltd.	PRC	90%
Shanghai Focus Media Defeng Advertisement Co., Ltd.	PRC	90%
Shanghai Focus Media Baiwang Advertising Co., Ltd.	PRC	70%
Shanghai Focus Media Xiangkun Advertising Co., Ltd.	PRC	70%
Infoachieve Limited	BVI	100%
Shanghai Framedia Investment Consultation Co., Ltd.	PRC	100%
Target Media Holdings Limited	Cayman Islands	100%
Target Media Multi-Media Technology (Shanghai) Co., Ltd.	PRC	100%
Dotad Holdings Limited	BVI	100%
ProfitBest Worldwide Limited	BVI	100%
Wiseglobal Investments Limited	BVI	100%
Summitworld Limited	BVI	100%
Newking Investment Limited	BVI	100%

For the years ended December 31, 2005, 2006 and 2007
(In U.S. dollars except share data and unless otherwise stated)

19. SUBSEQUENT EVENT (continued)

Appendix 1 (continued)

Subsidiaries of Focus Media Holding Limited (continued)

Subsidiary	Place of Incorporation	Percentage of ownership
Surge Zhenghe Holding Limited	BVI	100%
Speedaccess Limited	BVI	100%
Peakbright Group Limited	BVI	100%
Homesky Investment Limited	BVI	100%
Bestwin Partners Limited	BVI	100%
Glomedia Holdings Limited	BVI	100%
Appreciate Capital Ltd.	BVI	70%
Richcrest Pacific Limited	BVI	100%
Wealthstar Holdings Limited	BVI	100%
Highmark Asia Limited	BVI	100%
Plentiworth Investment Limited	BVI	100%
Directwealth Holdings Limited	BVI	100%
Better off Investments Limited	BVI	100%
Topstart Holdings Limited	BVI	100%
Vast Well Development Limited	BVI	100%
Crownsky Limited	BVI	100%
E-Rainbow Mobile Information Co., Limited	BVI	100%
Directvantage Limited	BVI	100%
Cmsc Holdings Limited	BVI	100%
Active Max Limited	BVI	100%
Sky Max Global Limited	BVI	100%
Fully Ascend Limited	BVI	100%
Luck Trillion Limited	BVI	100%
Angli Education Development Limited	BVI	100%
Angli Education Investment Limited	BVI	100%
Evercom Pacific Limited	BVI	70%
Century Bonus Limited	BVI	70%
Smart Cheer Limited	BVI	70%
Brightchina Enterprises Limited	BVI	70%
Spacenet International Limited	BVI	80%
Multibillion International Limited	BVI	100%
Pear Commercial Inc.	BVI	100%
One Capital Investment Limited	BVI	100%
First Star Investment Limited	BVI	100%
Xin Jin Hong Limited	Macau	100%
Advantage Way Limited	BVI	100%
Hua Kuang Advertising Company Limited	HK	100%
Allyes Information Technology Co., Ltd	Cayman Island	100%

For the years ended December 31, 2005, 2006 and 2007
(In U.S. dollars except share data and unless otherwise stated)

19. SUBSEQUENT EVENT (continued)

Appendix 1 (continued)

Subsidiaries of Focus Media Advertisement

The following table sets forth information concerning Focus Media Advertisement's subsidiaries each of which is incorporated in China:

Subsidiaries	Focus Media Advertisement's Ownership Percentage	Region of Operations	Primary Business
Shanghai Focus Media Advertising Co., Ltd.	90.0%(1)	PRC	Advertising agency
Shanghai Perfect Media Advertising Agency Co., Ltd.	90.0%(1)	PRC	Advertising company that operates advertising services network on shoe-shining machines
Qingdao Fukesi Advertisement Co., Ltd.	90.0%(1)	PRC	Operation and maintenance of out-of-home television advertising network (former regional distributor)
Changsha Focus Media Shiji Advertisement Co., Ltd.	90.0%(1)	PRC	Operation and maintenance of out-of-home television advertising network (former regional distributor)
Dalian Focus Media Advertising Co., Ltd.	90.0%(1)	PRC	Operation and maintenance of out-of-home television advertising network (former regional distributor)
Shanghai Qianjian Advertising Co., Ltd.	90.0%(1)	PRC	Operation and maintenance of out-of-home television advertising network in banking locations
Guangzhou Framedia Advertising Company Ltd.	90.0%(1)	PRC	Operation and maintenance of out-of-home television advertising network

For the years ended December 31, 2005, 2006 and 2007
(In U.S. dollars except share data and unless otherwise stated)

19. SUBSEQUENT EVENT (continued)

Appendix 1 (continued)

Subsidiaries of Focus Media Advertisement (continued)

Subsidiaries	Focus Media Advertisement's Ownership Percentage	Region of Operations	Primary Business
Zhuhai Focus Media Culture and Communication Company Ltd.	90.0%(1)	PRC	Operation and maintenance of out-of-home television advertising network (former regional distributor)
Shanghai Focus Media Digital Information Technology Co., Ltd.	10%(2)	PRC	Technical and business consultancy
Shenzhen Bianjie Building Advertisement Co., Ltd.	90.0%(2)	PRC	Operation and maintenance of frame advertising network
Hebei Tianma Weiye Advertising Company Ltd.	90.0%(2)	PRC	Operation and maintenance of out-of-home television advertising network (former regional distributor)
Xiamen Focus Media Advertising Company Ltd.	90.0%(2)	PRC	Operation and maintenance of out-of-home television advertising network (former regional distributor)
Sichuan Focus Media Advertising Communications Co., Ltd.	90.0%(3)	PRC	Operation and maintenance of out-of-home television advertising network
Shanghai New Structure Advertisement Co., Ltd.	90.0%(2)	PRC	Technical and business consultancy for poster frame network
Shanghai Framedia Advertising Development Co., Ltd.	90.0%(2)	PRC	Operation and maintenance of advertising poster frame network

For the years ended December 31, 2005, 2006 and 2007
(In U.S. dollars except share data and unless otherwise stated)

19. SUBSEQUENT EVENT (continued)

Appendix 1 (continued)

Subsidiaries of Focus Media Advertisement (continued)

Subsidiaries	Focus Media Advertisement's Ownership Percentage	Region of Operations	Primary Business
Guangzhou Shiji Shenghuo Advertisement Co., Ltd.	90.0%(2)	PRC	Operation and maintenance of advertising poster frame network
Hefei Fukesi Advertising Co. Ltd.	90.0%(2)	PRC	Operation and maintenance of out-of-home television advertising network (former regional distributor)
Jinan Focus Media Advertising Co., Ltd.	90.0%(2)	PRC	Operation and maintenance of out-of-home television advertising network (former regional distributor)
Shenzhen E-Times Consulting Co., Ltd.	90.0%(2)	PRC	Operation and maintenance of advertising poster frame network
Shanghai Target Media Co., Ltd.	90.0%(2)	PRC	Dormant (Former operation and maintenance of Target Media's out-of-home television advertising network)
Shenyang Target Media Ltd.	90.0%(2)	PRC	Dormant (Former operation and maintenance of Target Media's out-of-home television advertising network)
Fuzhou Hengding United Media Ltd.	90.0%(2)	PRC	Dormant (Former operation and maintenance of Target Media's out-of-home television advertising network)
Beijing Focus Media Wireless Co., Ltd.	90.0%(2)	PRC	Operation of mobile handset advertising service network

For the years ended December 31, 2005, 2006 and 2007
(In U.S. dollars except share data and unless otherwise stated)

19. SUBSEQUENT EVENT (continued)

Appendix 1 (continued)

Subsidiaries of Focus Media Advertisement (continued)

Subsidiaries	Focus Media Advertisement's Ownership Percentage	Region of Operations	Primary Business
Guangzhou Feisha Advertisement Co., Ltd.	90.0%(2)	PRC	Operation and maintenance of out-of-home television advertising network (former regional distributor)
DongGuan Focus Media Advertisement & Communications Co., Ltd.	90.0%(2)	PRC	Operation and maintenance of out-of-home television advertising network (former regional distributor)
Shanghai FengJing Advertisement & Communications Co., Ltd.	95.0%(2)	PRC	Operation and maintenance of out-of-home television advertising network (former regional distributor)
ZhengZhou Focus Media Advertisement & Communications Co., Ltd.	85.0%(2)	PRC	Operation and maintenance of out-of-home television advertising network (former regional distributor)
ShiJiaZhuang Focus Media HuiHuang Business Advertisement Co., Ltd.	90.0%(2)	PRC	Operation and maintenance of advertising poster frame network
Nanjing Focus Media Advertising Co., Ltd.	90.0%(3)	PRC	Operation and maintenance of out-of-home television advertising network (former regional distributor)
Yunnan Focus Media Co., Ltd.	89.5%(2)	PRC	Operation and maintenance of out-of-home television advertising network (former regional distributor)

For the years ended December 31, 2005, 2006 and 2007
(In U.S. dollars except share data and unless otherwise stated)

19. SUBSEQUENT EVENT (continued)

Appendix 1 (continued)

Subsidiaries of Focus Media Advertisement (continued)

Subsidiaries	Focus Media Advertisement's Ownership Percentage	Region of Operations	Primary Business
Tianjin Focus Tongsheng Advertising Company Ltd.	80.0%(2)	PRC	Operation and maintenance of out-of-home television advertising network (former regional distributor)
Zhejiang Ruihong Focus Media Advertising Communications Co., Ltd.	80.0%(2)	PRC	Operation and maintenance of out-of-home television advertising network (former regional distributor)
Wuhan Geshi Focus Media Advertising Co., Ltd.	75.0%(2)	PRC	Operation and maintenance of out-of-home television advertising network (former regional distributor)
Xian Focus Media Advertising & Information Company Ltd.	70.0%(3)	PRC	Operation and maintenance of out-of-home television advertising network (former regional distributor)
Shenyang Focus Media Advertising Co., Ltd.	70.0%(3)	PRC	Operation and maintenance of out-of-home television advertising network (former regional distributor)
Fuzhou Focus Media Advertising Co., Ltd.	70.0%(3)	PRC	Operation and maintenance of out-of-home television advertising network (former regional distributor)
Chongqing Geyang Focus Media Culture & Broadcasting Co., Ltd.	60.0%(2)	PRC	Operation and maintenance of out-of-home television advertising network (former regional distributor)

For the years ended December 31, 2005, 2006 and 2007
(In U.S. dollars except share data and unless otherwise stated)

19. SUBSEQUENT EVENT (continued)

Appendix 1 (continued)

Subsidiaries of Focus Media Advertisement (continued)

Subsidiaries	Focus Media Advertisement's Ownership Percentage	Region of Operations	Primary Business
Shanghai On-Target Advertisement Co., Ltd.	60.0%(3)	PRC	Advertising agency
Shanghai Jiefang Focus Media Advertisement & Communications Co., Ltd.	70.0%(3)	PRC	Operation and maintenance of direct mailing advertising business
City Billboard (BeiJing) Advertisement Co., Ltd.	75.0%(3)	PRC	Operation and maintenance of outdoor LED billboards advertising network
BeiJing YangShiSanWei Advertisement Co., Ltd.	70.0%(3)	PRC	Operation and maintenance of movie theatre advertising network
Beijing Tuojiachengyuan Advertisement Co., Ltd.	90%(2)	PRC	Operation and maintenance of outdoor billboards advertising network
Shanghai Zonghengpinyu Advertisement Co., Ltd.	90%(2)	PRC	Operation and maintenance of outdoor LED billboards advertising network
Quanzhou Xindalu Culture Communication Co., Ltd.	100%	PRC	Operation and maintenance of out- of-home television advertising network (former regional distributor)
Guizhou Focus Media Advertisement Co., Ltd.	100%	PRC	Operation and maintenance of out- of-home television advertising network (former regional distributor)

For the years ended December 31, 2005, 2006 and 2007
(In U.S. dollars except share data and unless otherwise stated)

19. SUBSEQUENT EVENT (continued)

Appendix 1 (continued)

Subsidiaries of Focus Media Advertisement (continued)

Subsidiaries	Focus Media Advertisement's Ownership Percentage	Region of Operations	Primary Business
Lanzhou Focus Media Advertisement Co., Ltd.	100%	PRC	Operation and maintenance of out-of-home television advertising network (former regional distributor)
Haerbin Focus Media Advertisement Co., Ltd.	100%	PRC	Operation and maintenance of out-of-home television advertising network (former regional distributor)
Jilin Focus Media Advertisement Co., Ltd.	90%(2)	PRC	Operation and maintenance of out-of-home television advertising network (former regional distributor)
Hefei Tiandi Advertisement Co., Ltd.	90%(2)	PRC	Operation and maintenance of out-of-home television advertising network (former regional distributor)
Suzhou Focus Media Communication and Advertisement Co., Ltd.	90%(2)	PRC	Operation and maintenance of out-of-home television advertising network (former regional distributor)
Shanghai Shenghuotongdao Advertisement Co., Ltd.	90%(2)	PRC	Operation and maintenance of direct mailing advertising business
Zhengzhou Focus Media Frame Advertisement Co., Ltd.	100%	PRC	Operation and maintenance of advertising poster frame network

For the years ended December 31, 2005, 2006 and 2007
(In U.S. dollars except share data and unless otherwise stated)

19. SUBSEQUENT EVENT (continued)

Appendix 1 (continued)

Subsidiaries of Focus Media Advertisement (continued)

Subsidiaries	Focus Media Advertisement's Ownership Percentage	Region of Operations	Primary Business
Shanghai Yuanchi Advertisement Co., Ltd.	90%(2)	PRC	Operation and maintenance of advertising poster frame network
Tianjin Saige Advertisement Planning Co., Ltd.	90%(2)	PRC	Operation and maintenance of advertising poster frame network
Shijiazhuang Framedia Zhonglian Advertisement Co., Ltd.	90%(2)	PRC	Operation and maintenance of advertising poster frame network
Taiyuan Framedia Juzhong Advertisement Co., Ltd.	90%(2)	PRC	Operation and maintenance of advertising poster frame network
Jinan Framedia Advertisement Co., Ltd.	90%(2)	PRC	Operation and maintenance of advertising poster frame network
Guangzhou Hengxun Advertisement Co., Ltd.	63%(5)	PRC	Internet advertising agency
Beijing Chuangshiqiji Advertisement Co., Ltd.	70%(3)	PRC	Internet advertising agency
Beijing Kudong Media Advertisement Co., Ltd.	70%(3)	PRC	Internet advertising agency
Shanghai Yuewei Computer Information Technology Co., Ltd.	70%(3)	PRC	Internet advertising agency
Shanghai Jiangpan Advertisement Co., Ltd.	70%(3)	PRC	Internet advertising agency
Shanghai Wangmai Advertisement Co., Ltd.	70%(3)	PRC	Internet advertising agency

For the years ended December 31, 2005, 2006 and 2007
(In U.S. dollars except share data and unless otherwise stated)

19. SUBSEQUENT EVENT (continued)

Appendix 1 (continued)

Subsidiaries of Focus Media Advertisement (continued)

Subsidiaries	Focus Media Advertisement's Ownership Percentage	Region of Operations	Primary Business
Beijing Jiahuahengshun Advertisement Co., Ltd.	80%(3)	PRC	Internet advertising agency
Beijing Jiahuahengshun Media Advertisement Co., Ltd.	80%(3)	PRC	Internet advertising agency
Beijing Jiahuazhongwang Advertisement Co., Ltd.	80%(3)	PRC	Internet advertising agency
Kesishitong Advertisement (Beijing) Co., Ltd	90%(2)	PRC	Internet advertising agency
Beijing Yibolande Advertisement Co., Ltd.	90%(2)	PRC	Internet advertising agency
Beijing Yitong Wireless Information Technology Co., Ltd.	90%(2)	PRC	Operation of mobile handset advertising service network

- (1) The remaining equity interest is held by Jimmy Wei Yu as our nominee holder.
- (2) The remaining equity interest is held by Focus Media Advertising Agency.
- (2) The remaining equity interest is held by Focus Media Technology.
- (3) The remaining equity interest in this entity is owned by unrelated third parties.
- (4) The remaining equity interest in this entity is owned by Focus Media Digital.
- (5) Focus Media Advertising Agency holding 7%, the remaining equity interests held by unrelated third parties.

Corporate Information

Management

Zhi Tan

Chief Executive Officer

Daniel Mingdong Wu

Chief Financial Officer

Cindy Yan Chan

Chief Strategy Officer

July Lilin Wang

Controller

Ergo Xueyuan Liu

Vice President — Commercial Location Network

Acer Jiawei Zhang

Vice President — In-store Network

David Hailing Zhu

CEO, Allyes (wholly-owned subsidiary)

Board of Directors

Jason Nanchun Jiang

Founder, Executive Chairman of
the Board of Directors, Focus Media

Zhi Tan

Chief Executive Officer, Focus Media

Jimmy Yu

Chairman and Chief Executive Officer,
United Capital Investment (China) Limited

Fumin Zhuo^{*(1)}

General Partner, SIG Capital Limited

Neil Nanpeng Shen^{*(1)}

Founding Managing Partner, Sequoia Capital China

Charles Chao

Chief Executive Officer, SINA Corporation

Daqing Qi^{*(1)}

Professor of Accounting and Associate Dean,
The Cheong Kong Graduate School of Business

David Zhang^{*(1)}

Managing director and head of the Beijing office of WI Harper

Ying Wu^{*(1)}

Founder of UTStarcom

* Independent Director

(1) a member of our audit committee, compensation committee and nomination committee

Depository for American Depositary Shares

Citibank, N.A

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14th Floor

New York, NY 10013

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Transfer Agent

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Wanchai

Hong Kong

U. S. Legal Counsel

Simpson Thacher & Bartlett LLP

ICBC Tower, 35th, Floor

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HongKong

Independent Accountant

Deloitte & Touche

30/F Bund Center

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Investor Relations

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Annual Meeting

Focus Media will host its 2008 annual general shareholder meeting at 10:00am on October 13, 2008 Beijing time at its corporate headquarters at the following address:

29/F, Zhaofeng World Trade Tower

369 Jiangsu Road,

200050 Shanghai

People's Republic of China

Stock Market Information

Focus Media shares are traded in the form of American Depositary Receipts (ADRs), on the Nasdaq Global Market under the symbol "FMCN", with one ADR corresponding to five ordinary shares

In US\$	2007
ADR price range	
High	65.10
Low	34.43
On June 30, 2008	27.72
Number of Shares (as of June 30, 2008, in millions)	661
Number of ADSs outstanding (as of June 30, 2008, in millions)	116
Market capitalization (on June 30, 2008, in millions of US\$)	3,665
Per-ADS data	
Earnings per ADR (Basic) (in US\$)	1.22
Earnings per ADR (Fully diluted) (in US\$)	1.19

Fiscal year from January 1 to December 31





Focus Media Holding Limited