For the years ended December 31, 2005, 2006 and 2007
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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.

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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.

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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
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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

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
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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.

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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			
Commercial Locations			
— 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**
In-store Network			
— 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**
In-elevator poster frame			
— Unrelated parties	—	44,893,004	**93,157,536**
— Related parties	—	—	**243,628**
Total In-elevator poster frame	—	44,893,004	**93,401,164**
Mobile handset advertising			
— Unrelated parties	—	10,880,075	**48,407,413**
— Related parties	—	—	**114,427**
Total mobile handset advertising	—	10,880,075	**48,521,840**
Internet advertising			
— 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:			
Commercial Locations	$ 5,991,497	$ 13,641,118	**$ 19,905,100**
In-store Network	524,271	2,803,349	**2,843,367**
In-elevator poster frame	—	3,988,769	**7,929,207**
Mobile handset advertising	—	779,110	**1,612,832**
Internet advertising	—	—	**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**

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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.

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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.

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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.

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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.

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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	

(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.

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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.

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.

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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

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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.

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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.

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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**

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5. ACCOUNTS RECEIVABLE, NET

Accounts receivable, net consists of the following:

	December 31, 2005	December 31, 2006	December 31, 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	December 31, 2006	December 31, 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**

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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.

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8. SHORT-TERM LOANS

	December 31, 2005	December 31, 2006	December 31, 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	December 31, 2006	December 31, 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

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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%**

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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

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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.

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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

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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%**

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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.

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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-l 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).

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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.

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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

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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 lawuits 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.

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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

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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%**

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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:

		Year ended December 31,		
Name of related parties	**Director interested**	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**

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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:

		Year ended December 31,		
Name of related parties	**Director interested**	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**

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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	December 31, 2006	December 31, 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**

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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-interesting 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.

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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.

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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%

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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%

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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

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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
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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

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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)

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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)

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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
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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

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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

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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.