

Focus Media Network Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code :

8112



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This report, for which the directors (the “Directors”) of Focus Media Network Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive and there are no other matters the omission of which would make any statement herein or this report misleading.

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MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Our Group is a well-established digital Out-of-Home (“OOH”) media company in Hong Kong and Singapore, with an operating history since April 2004. We had pioneered the concept of creating a sizeable network of flat panel displays in elevator lobbies of office and commercial buildings to sell advertisement. In terms of the number of venues, our Group is the largest digital OOH media company that has created a sizeable network in elevator lobbies of office and commercial buildings in Hong Kong and Singapore.

The number of venues in which our Group deployed our flat-panel displays continued to experience double-digit growth over the corresponding period of the previous year.

Region	Network	3 months ended 31 March 2012	3 months ended 31 March 2011	% Increase
Hong Kong	Office and Commercial Network	570	519	10%
Hong Kong	In-store Network (Mannings)	200	200	N/A
Singapore	Office and Commercial Network	339	285	19%
Singapore	HDB Shopping Centres	21	21	N/A
Singapore	In-store Network (Watsons)	50	50	N/A
Total number of venues		1,180	1,075	10%

FINANCIAL REVIEW

The Group’s turnover for the three months ended 31 March 2012 was approximately HK\$6.8 million, representing an increase of approximately 24% over the corresponding period of the previous year. The increase in the Group’s turnover was due to higher revenue generated on the back of an expanded network and from the initial results of the Group’s media partnership with Youku. Inc.

Gross profit for the three months ended 31 March 2012 increased to approximately HK\$4.5 million from approximately HK\$3.9 million for the three months ended 31 March 2011, representing an increase of approximately 15% over the corresponding period of the previous year. Gross profit margin decreased 4% to 67% from 71%, due to higher cost-of-sales associated with the Group’s media partnership with Youku. Inc.

FINANCIAL REVIEW (CONTINUED)

The Group's total operating expenses for the three months ended 31 March 2012 were approximately HK\$13.9 million, representing an increase of approximately 99% from approximately HK\$7.0 million for the corresponding period of the previous year when the Group was not yet a publicly-traded company. The increase in total operating expenses was due to:

- (1) increase in payroll costs by 28%; including increase in headcounts of 12%, and equity-based compensation of approximately \$1.3 million as the Group invests to hire and retain the best talents (headcount and related payroll costs constitute approximately 47% of the Group's total operating expenses as compared to approximately 60% for the corresponding period of the previous year);
- (2) cost associated with the Group's network expansion and increased capital expenditure as the Group invests to expand its digital networks by 10%;
- (3) increase in operating costs as a publicly-traded company, including professional parties fees; and
- (4) marketing expenses as the Group ramps up investments in marketing to advertisers, real-estate developers and investors.

As a result, the Group's negative EBITDA (Note 1) amounted to approximately HK\$7.3 million for the three months ended 31 March 2012 as compared to negative EBITDA of approximately HK\$2.4 million for the corresponding period of the previous year.

For the reporting period, the Group recorded a loss attributable to shareholders of the Company of approximately HK\$8.3 million as compared to a loss attributable to shareholders of the Company of approximately HK\$2.9 million for the three months ended 31 March 2011.

Note 1: EBITDA represents earnings before finance costs, income tax, depreciation of property, plant and equipment, equity-based compensation, and amortisation of intangible assets. While EBITDA is commonly used in the advertising and media industry worldwide as an indicator of operating performance, leverage and liquidity, it is not presented as a measure of operating performance in accordance with Hong Kong Financial Reporting Standards and should not be considered as representing net cash flows from operating activities. The computation of the Group's EBITDA may not be comparable to similarly titled measures of other companies.

Dividend

The Board does not recommend the payment of any dividend for the three months ended 31 March 2012 (2011: Nil).

Information on employees

As at 31 March 2012, the Group had 67 employees (31 March 2011: 60), including the executive Directors. Excluding those employees that joined in 2011, over 40% of the Group's existing employees had served more than four years with the Group over the eight years that the Group had operated. Total staff costs (including Directors' emoluments) were approximately HK\$6.5 million, including equity-based compensation, for the year ended 31 March 2012 as compared to approximately HK\$4.2 million for the three months ended 31 March 2011. Remuneration is determined with reference to market norms and individual employees' performance, qualification and experience.

FINANCIAL REVIEW (CONTINUED)

Information on employees (continued)

On top of basic salaries, bonuses may be paid by reference to the Group's performance as well as individual's performance. Other staff benefits include contributions to Mandatory Provident Fund scheme in Hong Kong and Central Provident Fund scheme in Singapore as well as share options.

Significant investments held

Except for investment in subsidiaries, during the three months ended 31 March 2012, the Group did not hold any significant investment in equity interest in any company.

Placing of unlisted warrants under General Mandate

On 27 March 2012, the Company and MCL Brokerage Limited, the placing agent, entered into the placing agreement, pursuant to which the Company had appointed the placing agent as its agent to place, on a best-effort basis, warrants conferring the right to subscribe up to 32,800,000 ordinary shares of the Company at an issue price of HK\$0.01 per warrant. Each warrant will carry the right to subscribe for one ordinary share of the Company at an initial subscription price of HK\$0.8 per share, subject to adjustment. The subscription right will be exercisable during a period of 18 months from the date of issue of the warrants.

On 2 April 2012, subsequent to the three months ended 31 March 2012, the Company has issued 32,800,000 unlisted warrants to independent third parties.

Future plans for material investments and capital assets

Save as disclosed in the Company's Prospectus, the Group did not have other plans for material investments and capital assets. The Company however had on 13 April 2012 made a voluntary announcement of a non-legally binding memorandum of understanding in respect of a potentially very substantial acquisition of a target, conditional upon the Company assembling the required funds for the proposed acquisition. The target, one of the early pioneers of the out-of-home advertising industry, has an operating history of over two decades and owns an extensive portfolio of outdoor space in Hong Kong for the provision of multi-channel out-of-home advertising services.

Material acquisitions and disposals of subsidiaries and affiliated companies

During the three months ended 31 March 2012, the Group did not have any material acquisitions and disposals of subsidiaries and affiliated companies.

Charges of assets

As at 31 March 2012, the Group did not have any charges on its assets (31 December 2011: Nil).

Contingent liabilities

The Group had no material contingent liabilities as at 31 March 2012 (31 December 2011: Nil).

HIGHLIGHTS

- The Group experienced continuous double-digit growth in terms of revenue and gross profit over the corresponding period of the previous year.
- The Group's turnover for the three months ended 31 March 2012 was approximately HK\$6.8 million, representing an increase of approximately 24% over the corresponding period of the previous year due to higher revenue generated on the back of an expanded network and from the initial results of the Group's media partnership with Youku. Inc.
- The Group's gross profit for the three months ended 31 March 2012 increased to approximately HK\$4.5 million from approximately HK\$3.9 million for the three months ended 31 March 2011, representing an increase of approximately 15% over the corresponding period of the previous year.
- The Group recorded a loss attributable to shareholders of the Company of approximately HK\$8.3 million for the three months ended 31 March 2012 as compared to a loss attributable to shareholders of approximately HK\$2.9 million over the corresponding period of the previous year. (Loss of approximately HK\$8.3 million includes approximately HK\$5.8 million of equity-based compensation, increase in operating cost as a publicly-traded company; including professional parties fees, the Group's effort to rapidly ramp up investments in marketing to advertisers, real-estate developers and investors as well as increase in headcounts and payroll and network expansion over the corresponding period of the previous year when the Group was not yet a publicly-traded company).
- Loss per share for the three months ended 31 March 2012 was HK\$2.64 cents.
- The Board does not recommend the payment of any dividend for the period.

UNAUDITED FIRST QUARTERLY RESULTS

The board (the "Board") of directors (the "Directors") of Focus Media Network Limited (the "Company") is pleased to present the unaudited condensed consolidated results of the Company and its subsidiaries (collectively the "Group") for the three months ended 31 March 2012 together with comparative unaudited figures for the corresponding periods ended 31 March 2011, as follows.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months ended 31 March 2012

	<i>Notes</i>	Three months ended	
		2012	2011
		HK\$	HK\$
		(Unaudited)	(Unaudited)
Revenue		6,758,691	5,466,413
Cost of sales		(2,252,710)	(1,583,598)
Gross profit		4,505,981	3,882,815
Other income		15,108	40,018
Administrative expenses		(13,893,905)	(6,964,560)
Operating loss		(9,372,816)	(3,041,727)
Finance costs		(16,504)	(41,425)
Loss before income tax		(9,389,320)	(3,083,152)
Income tax	3	735,832	—
Loss for the period		(8,653,488)	(3,083,152)
Other comprehensive income for the period, net of tax			
Currency translation differences		313,626	198,591
Total comprehensive loss for the period attributable to equity holders of the Company		(8,339,862)	(2,884,561)
Loss per share for loss attributable to equity holders of the Company			
— Basic and diluted	5	(2.64) cents	(1.25) cents

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three months ended 31 March 2012

	Attributable to equity holders of the Company						
	Share capital HK\$	Share premium HK\$	Capital reserve HK\$	Exchange reserve HK\$	Share option reserve HK\$	Accumulated losses HK\$	Total HK\$
Balance at 1 January 2011	—	—	55,778,953	(369,512)	—	(11,670,888)	43,738,553
Loss for the period	—	—	—	—	—	(3,083,152)	(3,083,152)
Other comprehensive loss							
Currency translation differences	—	—	—	198,591	—	—	198,591
Total comprehensive loss	—	—	—	198,591	—	(3,083,152)	(2,884,561)
Balance at 31 March 2011	—	—	55,778,953	(170,921)	—	(14,754,040)	40,853,992
Balance at 31 December 2011 and 1 January 2012	3,280,000	274,344,873	(176,467,450)	(558,858)	2,913,880	(9,634,289)	93,878,156
Changes in equity for the three months ended 31 March 2012							
Loss for the period	—	—	—	—	—	(8,653,488)	(8,653,488)
Other comprehensive loss							
Currency translation differences	—	—	—	313,626	—	—	313,626
Total comprehensive loss	—	—	—	313,626	—	(8,653,488)	(8,339,862)
Transactions with owners							
Share option expenses	—	—	—	—	1,125,915	—	1,125,915
Balance at 31 March 2012	3,280,000	274,344,873	(176,467,450)	(245,232)	4,039,795	(18,287,777)	86,664,209

NOTES TO THE FINANCIAL INFORMATION

For the three months ended 31 March 2012

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Island on 28 January 2011 as an exempted company with limited liability under the Companies Law of the Cayman Islands. The shares of the Company have been listed on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited since 28 July 2011.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The Group's unaudited condensed consolidated first quarterly financial information has been prepared in accordance with the applicable disclosure requirements set out in Chapter 18 of the GEM Listing Rules. The accounting policies adopted in preparing the unaudited condensed consolidated first quarterly financial information were consistent with those applied for the consolidated financial statements of the Group for the year ended 31 December 2011. These unaudited condensed consolidated first quarterly financial information are presented in Hong Kong dollars and all values are, unless otherwise stated.

3. INCOME TAX

	Three months ended 31 March	
	2012	2011
	HK\$	HK\$
	(Unaudited)	(Unaudited)
Current income tax		
— Hong Kong profits tax	—	—
— Singapore income tax	—	—
Deferred income tax	(735,832)	—
	(735,832)	—

No provision for Hong Kong profits tax and Singapore corporate income tax has been made in these consolidated financial information as the Group's tax losses brought forward from previous years exceed the estimated assessable profits for the period ended 31 March 2012 (2011: Same). The profits tax rates for Hong Kong and Singapore are 16.5% (2011: 16.5%) and 17% (2011: 17%) respectively.

NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

For the three months ended 31 March 2012

3. INCOME TAX (CONTINUED)

The income tax on the Group's profit before income tax differs from the theoretical amount that would arise using the enacted tax rate of the home country of the companies comprising the Group as follows:

	Three months ended	
	31 March	
	2012	2011
	HK\$	HK\$
	(Unaudited)	(Unaudited)
Loss before income tax	(9,389,320)	(3,083,152)
Tax calculated at domestic tax rates applicable to profits in the respective countries	(761,758)	(245,448)
Expenses not deductible for tax purpose	25,926	245,448
Income tax	(735,832)	—

4. DIVIDENDS

The Board does not recommend the payment of any dividend for the period (2011: Nil).

5. LOSS PER SHARE

Basic

Basic earnings per share for the periods ended 31 March 2012 and 2011 are calculated by dividing the loss attributable to the shareholders of the Company by the deemed weighted average number of ordinary shares in issue during the periods.

	For the three months ended 31 March	
	2012	2011
Loss attributable to equity holders of the Company	HK\$(8,653,488)	HK\$(3,083,152)
Weighted average number of shares in issue	328,000,000	246,000,000
Basic loss per share	HK\$(2.64) cents	HK\$(1.25) cents

Diluted

Diluted earnings per share is the same as basic earnings per share as there were no potential dilutive ordinary shares outstanding during the period ended 31 March 2012 and 2011.

6. APPROVAL OF THE UNAUDITED CONDENSED CONSOLIDATED FIRST QUARTER FINANCIAL STATEMENTS

The unaudited condensed consolidated first quarterly financial information was approved by the Board on 8 May 2012.

OTHER INFORMATION

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS OR SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 March 2012, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meanings of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the "SFO")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which any such director or chief executive is taken or deemed to have under such provision of the SFO) or which were required pursuant to Section 352 of the SFO, to be entered in the register of members of the Company, or which were required, pursuant to standard of dealings by Directors as referred to in Rule 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

Long positions in the shares of the Company

Name of directors	Interests in ordinary shares			Total interests in ordinary shares	Total interests in underlying shares held under equity derivatives	Aggregate interests	% of the Company's issued share capital
	Personal interests	Family interests	Corporate interests				
Wong Hong Gay Patrick Jonathan	—	—	169,026,600 <i>(Note)</i>	169,026,600	328,000*	169,354,600	51.63%
Ngan Toi Yuk	—	—	—	—	3,608,000*	3,608,000	1.10%
Tam Kai Kwong Eric	—	—	—	—	2,132,000*	2,132,000	0.65%
Lee Sze Leong	—	—	—	—	1,968,000*	1,968,000	0.60%
Chan Tsze Wah	—	—	—	—	328,000*	328,000	0.1%
Lien Jown Jing Vincent	—	—	—	—	328,000*	328,000	0.1%
Rosenkranz Eric Jon	—	—	—	—	328,000*	328,000	0.1%
Chan Chi Keung Alan	—	—	—	—	328,000*	328,000	0.1%

* Being personal interests

Note: These shares are directly held by iMediaHouse Asia Limited which is owned as to approximately 65.08% by iMediaHouse.com which is in turn owned as to approximately 75.30% by Mr. Wong Hong Gay Patrick Jonathan ("Mr. Wong"). Mr. Wong is therefore deemed to be interested in in these shares by virtue of the SFO.

Save as disclosed above, as at 31 March 2012, none of the Directors and chief executives of the Company had any other interests or short positions in any shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to the required standard of dealings by the directors to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND/OR SHORT POSITION IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 March 2012, other than the interests and short positions of the Directors disclosed above, the following persons (not being a Director or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under provision of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO, or who is directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

Long positions in the shares of the Company

Name of shareholders	Capacity	Number of shares held	Approximate percentage of shareholding in the Company
iMediaHouse Asia Limited (<i>Notes 1 & 2</i>)	Beneficial owner	169,026,600	51.53%
iMediaHouse.com Limited (<i>Notes 1 & 2</i>)	Interest of controlled corporation	169,026,600	51.53%
Trade Grand International Limited (<i>Notes 3 & 4</i>)	Beneficial owner	61,500,000	18.75%
Wong's Industrial (Holdings) Limited (<i>Notes 3 & 4</i>)	Interest of controlled corporation	61,500,000	18.75%
Catel (B.V.I.) Limited (<i>Notes 3 & 4</i>)	Interest of controlled corporations	61,500,000	18.75%
Wong's International (Holdings) Limited (<i>Notes 3 & 4</i>)	Interest of controlled corporations	61,500,000	18.75%
Flyer Wonder Limited (<i>Notes 5 & 6</i>)	Beneficial owner	31,668,000	9.65%
Asia Private Credit Fund Limited (<i>Notes 5 & 6</i>)	Interest of controlled corporation	31,668,000	9.65%
Citigroup Inc.	Person having a security interest in shares	31,668,000	9.65%

Notes:

- These shares are directly held by iMediaHouse Asia Limited ("iMHA") which is owned as to approximately 65.08% by iMediaHouse.com ("iMH"). iMH is therefore deemed to be interested in these shares by virtue of the SFO.
- The interests of iMH and iMHA are duplicated.
- These shares are directly held by Trade Grand International Limited ("TGIL") which is wholly owned by Wong's Industrial (Holdings) Limited ("WIHL"), which is in turn wholly owned by Catel (B.V.I.) Limited ("Catel"). Catel is wholly owned by Wong's International (Holdings) Limited ("Wong's International"). WIHL, Catel and Wong's International are therefore deemed to be interested in these shares by virtue of the SFO.
- The interests of TGIL, WIHL, Catel and Wong's International are duplicated.
- These shares are directly held by Flying Wonder Limited ("FWL") which is wholly owned by Asia Pacific Credit Fund Limited ("APCFL"). APCFL is therefore deemed to be interested in these shares by virtue of the SFO.
- The interests of FWL and APCFL are duplicated.

Save as disclosed under the section headed "Directors' and Chief Executives' Interests or Short Positions in Shares, Underlying Shares and Debentures" and the above section, at 31 March 2012, no other person was individually and/or collectively entitled to exercise or control the exercise of 5% or more of the voting power at general meeting of the Company and was able, as a practical matter, to direct or influence the management of the Company.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the three months ended 31 March 2012, the Company did not redeem any of its listed securities, and neither did the Company nor any of its subsidiaries purchase or sell any of the Company's listed securities.

INTERESTS OF THE COMPLIANCE ADVISER

As notified by CIMB Securities (HK) Limited ("CIMB"), the compliance adviser of the Company, neither CIMB nor its directors or employees or associates had any interests in any class of securities of the Company or any other company in the Group (including options or rights to subscribe for such securities) as at 31 March 2012.

Pursuant to the agreement dated 29 June 2011 entered into between CIMB and the Company, CIMB received and will receive fees for acting as the compliance adviser of the Company.

COMPETITION AND CONFLICT OF INTERESTS

During the three months ended 31 March 2012, none of the Directors, the management shareholders or substantial shareholders of the Company or any of their respective associates has engaged in any business that competes or may compete with the business of the Group or has any other conflict of interests with the Group.

CODE OF CONDUCT FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiries to all the Directors, the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by Directors during the three months ended 31 March 2012.

CORPORATE GOVERNANCE PRACTICES

Adapting and adhering to recognised standards of corporate governance principles and practices has always been one of the top priorities of the Company. The board of directors of the Company (the "Board") believes that good corporate governance is one of the areas that leads to the success of the Company and in balancing the interests of shareholders, customers and employees, and the Board is devoted to ongoing enhancements of the efficiency and effectiveness of such principles and practices.

From the date of Listing and up to 31 March 2012, the Company had complied with the code provisions ("Code Provisions") set out in the Code of Corporate Governance Practices contained in Appendix 15 (in effect on or before 31 March 2012) to the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules"), except for Code Provision A.2.1.

Code Provision A.2.1 provides that the roles of the chairman and chief executive officer should be separate and should not be performed by the same individual. The positions of Chairman of the Board and Chief Executive Officer ("CEO") of the Company are both currently carried on by Mr. WONG Hong Gay Patrick Jonathan. The Board considers that the structure currently operated by the Company does not undermine the balance of power and authority between the Board and the management. The Board members have considerable experience and qualities which they bring to the Company and the Board believes that it is able to ensure that the balance of power between the Board and the management is not impaired. The Board believes that having the same person performing the roles of both Chairman and CEO does provide the Group with strong and consistent leadership and that, operating in this manner allows for more effective and efficient overall strategic planning of the Group.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference in compliance with Rule 5.28 of the GEM Listing Rules and paragraph C3.3 of the Corporate Governance Code as set out in Appendix 15 (taking effect from 1 April 2012) to the GEM Listing Rules. The primary duties of the audit committee are mainly to make recommendations to the Board on the appointment and removal of external auditors; review the financial statements and provide material advice in respect of financial reporting; and oversee internal control procedures of the Company. The audit committee comprises three independent non-executive Directors, namely Mr. Lien Jown Jing Vincent (chairman of the audit committee), Mr. Rosenkranz Eric Jon and Mr. Chan Chi Keung Alan.

OTHER INFORMATION (CONTINUED)

The unaudited condensed consolidated financial information of the Group for the three months ended 31 March 2012 have not been audited by the Company's auditor, PricewaterhouseCoopers, but have been reviewed by the audit committee, who is of the opinion that the interim financial information comply with the applicable accounting standards, the Stock Exchange and legal requirements, and that adequate disclosures have been made.

By order of the Board
Focus Media Network Limited
Wong Hong Gay Patrick Jonathan
Chairman, CEO and Executive Director

Hong Kong, 8 May 2012

As at the date of this report, the executive Directors are Mr. Wong Hong Gay Patrick Jonathan, Ms. Ngan Toi Yuk, Mr. Tam Kai Kwong Eric, and Mr. Lee Sze Leong; the non-executive Director is Mr. Chan Tsze Wah; and the independent non-executive Directors are Mr. Lien Jown Jing Vincent, Mr. Rosenkranz Eric Jon and Mr. Chan Chi Keung Alan.