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CCME: Taking the Short Bus to Profits

Company:

China Media Express Holdings (CCME)

Industry:

Outdoor Digital Advertising

Recommendation:

Strong Sell

Estimated Value:

\$5.28

Report Date:

February 3, 2011

Price:

\$16.61

Market Cap:

\$559.3 million

Float:

10.2 million

Avg Volume:

1.7 million

- Muddy Waters, LLC believes that CCME is engaging in a massive “pump and dump” scheme whereby it significantly inflates revenue and profits in order to enrich management through earn-outs and stock sales.
- We estimate that CCME’s actual 2009 revenue was no more than \$17 million (versus \$95.9 million it reported).
- The data CCME provides to advertisers shows that it has fewer than half of the 27,200 buses it claims to have.
- The CTR reports that the Company uses to support its claims contain gross errors that we conclude are due to manipulation by the management.
- We estimate that over half of CCME’s network buses do not actually play CCME content. Rather, drivers play DVD movies that are often provided by passengers.
- We caught CCME’s management telling a particularly egregious lie – that its new website (www.switow.com) has entered into an agreement with Apple (or one of Apple’s) distributors. Neither is true.
- Similar to RINO, CCME is an obscure company in its industry. Media buyers who would have to know it if CCME were to be believed have never even heard the Company’s name before.
- CCME’s core audience is sub-Greyhound Bus demographic.



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CCME: Riding the Short Bus to Profits

Muddy Waters, LLC believes that China MediaExpress Holdings, Inc. (“CCME” or the “Company”) is engaging in a massive “pump and dump” scheme. The Company is significantly inflating its revenue and earnings in order to pay management earn-outs and inflate the stock price so insiders can sell.

Management owns approximately \$312 million worth of shares. An institutional investor informed us that management was quite interested in selling him \$50 million worth of their shares. In October 2010, a party closely connected to management sold nine million dollars of stock.¹

We estimate that CCME’s actual 2009 revenue was no more than \$17 million versus reported revenue of \$95.9 million, an overstatement of over 464%. Note that the SAIC financial statements of the operating company, Fujian Focus Media Co. Ltd., show 2009 revenue of \$760,000 (generating a net loss of \$920,000), and 2008 revenue of \$337,000 (generating a net loss of \$890,000).

We doubt that CCME would have been profitable on \$17 million in revenue, but giving it the benefit of the doubt, we would assume net income of \$1.7 million, or basic EPS of \$.05. We place a 5x multiple on the earnings due to our belief that the real earnings could very well be lower than \$.05. This yields a value of \$.25 per share. We add in the cash balance to value the Company. If one assumes that the \$169.9 million in cash on the balance sheet is accurate, which is a large assumption considering we do not believe the reported income, one would value CCME at \$5.28 per share. However, to the extent that the cash balance is inflated, we would value CCME at a lower price. Therefore our per share valuation is currently \$5.28, but is subject to change should we believe that the cash number is incorrect.

CCME: The Myth

CCME would have investors believe that it places televisions to show advertising and non-advertising content on over 27,200 long distance buses. CCME would also have investors believe that it has generated approximately \$214 million in advertising revenue in 2010,² with much of it coming from large marketers such as The Coca-Cola Company (NYSE: KO) and Lenovo (HKSE: 992). CCME also trumpets its airport express bus operation, which it claims generated \$15 million in revenue in Q3 2010 from only six airports.

¹ The seller was Thousand Space Holdings Ltd., which is beneficially owned by Lin Ou Wen, who was an investor in the business prior to the SPAC transaction.

² See Global Hunter Securities, LLC “Continued due diligence on CCME reinforces our thesis; Reiterate Buy” (February 1, 2011).



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CCME states that its audiences consists of middle-income professionals with disposable income, and is thus attractive to advertisers. CCME also paints a picture of these valuable travelers dutifully watching the CCME's content on one of two screens on the typical CCME bus.

CCME supports its contentions on bus network size, viewership, and demographics by citing research it commissioned from CTR Media Intelligence ("CTR"). In an attempt to prove its legitimacy and strong cash generation capability, it announced plans to pay a semi-annual dividend equal to 5% to 10% of earnings.³

BUSTed – a Small Advertising Company Creating a Lot of Wealth for Management.

CCME tells investors that it has over 27,200 buses in its network.⁴ However, it tells advertisers that it only has 12,565 buses in its network. CCME management tells investors that its utilization rate (minutes sold divided by minutes available for sale) is close to 100%. A 100% utilization rate would be hard to achieve if it refrains from selling ads on more than half of its buses. (As a side note, CCME's China digital outdoor media comps have utilization rates in the 20% to 30% range.)

The CTR research upon which CCME relies to (re)assure investors contains gross errors. We found that the largest operator in the report never had a business relationship with CCME. We also found that the CTR research exaggerates the numbers of buses of 13 operators by a collective 424%. We hold CCME management responsible for these errors.

The next issue is that over half of CCME's network buses do not actually play CCME content. Many of the buses in which CCME installs hard drives and screens also have DVD players connected to the screens. We surveyed over 50 CCME buses, and the majority was playing DVDs instead of CCME content. Often the passengers bring DVDs that they ask the drivers to play. There is nothing unique or high tech about CCME's hard drive systems. You can buy them from CCME's supplier on Alibaba– we were quoted US\$320 for the same system CCME purchases.

We caught CCME's management telling a particularly egregious lie. It recently announced it had created an online shopping platform that has an agreement with Apple Inc. (NASDAQ: AAPL – yes, THAT Apple) or one of AAPL's distributors. AAPL made clear to us that it has no such relationship with CCME's subsidiary. Further, AAPL keeps tight control over its distribution in China, with only two authorized online distributors (including Amazon.com's China subsidiary). None of AAPL's China distributors have authority to sub-license.

³ See CCME press release "China MediaExpress Holdings, Inc. Announces Dividend Policy" (December 16, 2010).

⁴ See CCME press release "China MediaExpress Holdings, Inc. Announces Three New Contracts" (January 13, 2011).



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Reminiscent of RINO, CCME is in reality an obscure company in its industry. None of the major media buyers with whom we spoke – including several who represent CCME’s purported customers – had even heard of CCME.

CCME’s core audience is a sub-Greyhound Bus demographic, which is largely unattractive to all but local businesses (e.g., local restaurants and hotels). Much has been made about having performed due diligence by seeing commercials from large advertisers on CCME’s network buses. In this case, seeing is not believing.

It is not uncommon for small media companies in China to show ads from large prestigious brands with which they have no contract or business relationship. Usually this is done in order to impress potential advertisers. We suspect that CCME does this to a fair extent, but to impress investors.

The purpose of this fraud is to generate earn-outs for management, and to increase the market value their stock so they can sell it. An institutional investor informed us that CCME management was quite interested in selling him approximately \$50 million of their shares. In October 2010, a party closely connected to management sold nine million dollars of stock.⁵

Management (including through companies owned by family and close associates) owns approximately 18.3 million shares of stock (54.1% of the shares outstanding).⁶ At current market value, that equals \$312 million. There has been some fanfare around a 104,000-share management purchase in December 2010. We view this purchase, along with the dividend that the Company announced it intends to pay (essentially a partial return of investor funds), as investor relations expenses.

Similar to RINO, there is an underlying business – it is just much smaller than reported. The Company appears focused on Beijing inter-city buses and its airport express buses. However, we suspect this focus has less to do with generating real profit, and more to do with projecting credibility to investors.

CCME has far Fewer Buses in its Network than it Claims.

CCME has far fewer buses than it claims. In its most recent press release, the Company claimed to have “over 27,200” buses under contract.⁷ However, the spreadsheet provided as part of its

⁵ The seller was Thousand Space Holdings Ltd., which is beneficially owned by Lin Ou Wen, who was an investor in the business prior to the SPAC transaction.

⁶ Based on 33.8 million basic shares outstanding.

⁷ See CCME press release “China MediaExpress Holdings, Inc. Announces Three New Contracts” (January 13, 2011).



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advertiser kit shows that CCME has only 12,565 buses.⁸ Approximately 700 of these buses are not in scheduled service – they are actually charter buses. The salesperson with whom we spoke stated that the spreadsheet we have is current and accurate.

Further, we identified substantial inaccuracies in the August 2008 CTR report that CCME relies on to demonstrate the size of its network to investors.⁹ The inaccuracies we identified are: 1) the largest operator in the report never worked with CCME, and 2) the report exaggerated the numbers of buses of 13 operators by a collective 424%.

CCME's Advertiser Kit Shows that it has Fewer than Half of the Buses it Claims

The most current spreadsheet CCME provides to prospective advertisers shows only 12,565 buses in its network.¹⁰ The Muddy Waters, LLC website contains PDF versions of CCME's bus network spreadsheet.¹¹ The salesperson assured us that the spreadsheet is accurate and complete as of January 2011.

Approximately 700 of the buses in this spreadsheet are not scheduled inter-city buses. Rather they are charter buses available for rent by tour groups. Such audiences are almost valueless for advertisers because of their unknown demographics and the impossibility of knowing when or how often ads will be shown.

As we discuss in this report, we believe that fewer than half of the buses in CCME's network actually show CCME content. Thus the effective size of CCME's bus network is far smaller than what it shows prospective advertisers.

The CTR Report, on which the Company Asks Investors to Rely, Contains Gross Inaccuracies

The August 2008 CTR Report that CCME places on its website¹² to support its claims about network size is wholly inaccurate. It lists at least two – and possibly more – companies that are not present in the advertiser kit.¹³ It exaggerates the number of buses owned by 13 companies by 6,347 buses (4.2x). We verified these surprising discrepancies through conversations with three bus operators and internet searches.

⁸ We make this data available for download in PDF format at http://www.muddywatersresearch.com/wp-content/uploads/2011/02/2011_CCME_BusInfo_ByCity.zip

⁹ The CTR report is available on CCME's website (<http://www.ccme.tv/eng/pns/intercitybus.php>), and at http://www.muddywatersresearch.com/wp-content/uploads/2011/02/intercitybus_02.pdf

¹⁰ Supra FN 8.

¹¹ *Id.*

¹² Supra FN 9.

¹³ The reason for the uncertainty is that the advertiser kit does not break out all provinces by company.



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Similar to RINO, we verified that CCME’s largest relationship does not exist. We spoke with the largest operator in the CTR report, Shanghai Ba Shi about CCME. Ba Shi told us that it never had a business relationship with CCME. This comports with the advertiser kit,¹⁴ but wholly contradicts the CTR report. We spoke with Beijing A-er-sha Passenger Transportation Co. Ltd. (“Alsa”) and Beijing Xiang Long A-er-sha Passenger Transportation Co. Ltd. (“Xiang Long Alsa”). The CTR report claims Alsa and Xiang Long Alsa have 207 and 428 buses, respectively. Alsa told us that it has only approximately 20 buses. Xiang Long Alsa told us it has only approximately 60 buses. These numbers comport with the data in the advertiser kit.¹⁵ We provide screen shots of various operators’ websites below the table that also validate the advertiser kit data where available, and additionally contradict the CTR report with respect to two Fujian companies.

The table below compares the data in the CTR report to the data in the advertiser kit spreadsheet. Following the table, we include screenshots from some of the bus companies’ websites that validate the numbers in the advertiser kit and another table showing discrepancies by market. We therefore believe that the reports CTR prepares for the Company are wholly unreliable. We do not believe that CTR developed these inaccurate numbers in a vacuum. We therefore hold the Company responsible for these misstatements.

Bus Companies Discussed in CTR Report	CTR Report - Number of Buses	Advertiser Kit - Number of Buses	Difference
Shanghai Ba-Shi (Group) Industrial Co. Ltd	1,892	Company Not Listed	1,892
Shanghai Zi-xing Passenger Transportation Co.,Ltd	235	Company Not Listed	235
Tianjin Long Distance Transportation Co.,Ltd	1,270	527	743
Tianjin A-er-sha Passenger Transportation Co.,Ltd	122	38	84
Tianjin Jin-yu Transportation Co.,Ltd	117	43	74
Beijin Yin-jian Transportation Co.,Ltd.5th Branch	862	242	620
Beijin Long-xiang A-er-sha Passenger Transportation Co.,Ltd	428	38	390
Beijin A-er-sha Passenger Transportation Co.,Ltd	207	22	185
Fujian San-fu Express Passenger Transportation Co.,Ltd	128	Company Not Listed	128
Fujian Min-shen-fa Express Passenger Transportation Co.,Ltd	50	Company Not Listed	50
Xin-guo-xian Group (Jiangsu) Transportation Co.,Ltd	92	40	52
Changzou Highway Transportation Co.,Ltd	502	255	247
Jiangsu Yanfu Highway Transportation Group Co.,Ltd	226	224	2
Jiangsu Yanfu Highway Transportation Group Dongtai Branch	161	48	113
Jiangsu kuailu Yanchen Vehicle Transportation Co.,Ltd	55	19	36
Total	6,347	1,496	4,851

¹⁴ Supra FN 8.

¹⁵ *Id.*



The CTR report says it owns 428 buses.



The CTR report says it owns 207 buses.

福建省交通运输集团有限责任公司
FUJIAN PROVINCIAL COMMUNICATION TRANSPORTATION GROUP CO.,LTD

天气> 福州 113°C-7°C 寅
设为首页 收藏本站
下载中心 联系我们

首页 | 关于我们 | 权属企业 | 新闻中心 | 集团业务 | 企业文化 | 联系我们

和谐 创新 竞争

Fujian San-lu Express Passenger Transportation Co., Ltd

当前位置 > 首页 > 集团业务

集团业务 Business

路线

班线客运

- 福建省汽车运输总公司
- 福建闽深发快速客运有限公司
- 福建三福快速客运有限公司
- 福州闽运南福快速客运有限公司
- 福建快运股份有限公司

旅游客运

- 福州旅游集散中心
- 福建凤凰旅游汽车有限公司
- 华闽旅游汽车运输有限公司

福建三福快速客运有限公司是由福建省汽车运输总公司、新国线集团（福州）汽车运输公司、福建快运股份有限公司共同投资创建。经福州、三明两地市交通运输行业主管部门的批准,专业从事高速公路旅客运输企业,于2005年元月正式挂牌成立。公司以国有大型运输企业福建省汽车运输总公司为依托,遵循“旅客至上、优质服务、信譽第一”的服务宗旨,为了更好地满足出行旅客需求,公司与三明市新干线高速汽车客运有限公司通力协作,共同联手打造三福快运精品品牌。主营线路为福州至三明、永安、沙县、将乐。合作双方共同投放大型高级客车三十二辆,分别往返于福州、三明、永安、沙县各地车站,公司始终坚持奉行“以人为本,旅客至上”的经营理念,重视员工的素质教育和培养,公司安全行车超百万公里的驾驶员占95%。我们坚持“安全、舒适、温馨、快捷”为质量方针。同时公司十分重视企业规范化管理,目前办公系统和车辆运行程序逐步进入电脑化,全部运营车辆已安装GPS卫星定位系统,随时随地为旅客提供全方位的旅途位置及沿线人文景物的信息,车载多媒体音响播放精彩节目声情并茂,同时安装了交通部与公安部合办的“安全行车记录仪”,对我司行车安全起到有效的监控管理和安全保障。

福建三福快运的发展目标:全面提升企业优化管理水平和优质服务水准,努力追求综合效益最大化,为广大旅客提供最佳的服务。

公司地址: 福州市晋安区华林路373号顺达大厦9楼

联系电话(传真): 0591-87581660

The company has 32 buses.
三十二 is the chinese character for 32

The CTR report says it owns 128 buses.

福建省交通运输集团有限责任公司
FUJIAN PROVINCIAL COMMUNICATION TRANSPORTATION GROUP CO.,LTD

天气> 福州 113°C-7°C 寅
设为首页 收藏本站
下载中心 联系我们

首页 | 关于我们 | 权属企业 | 新闻中心 | 集团业务 | 企业文化 | 联系我们

和谐 创新 竞争

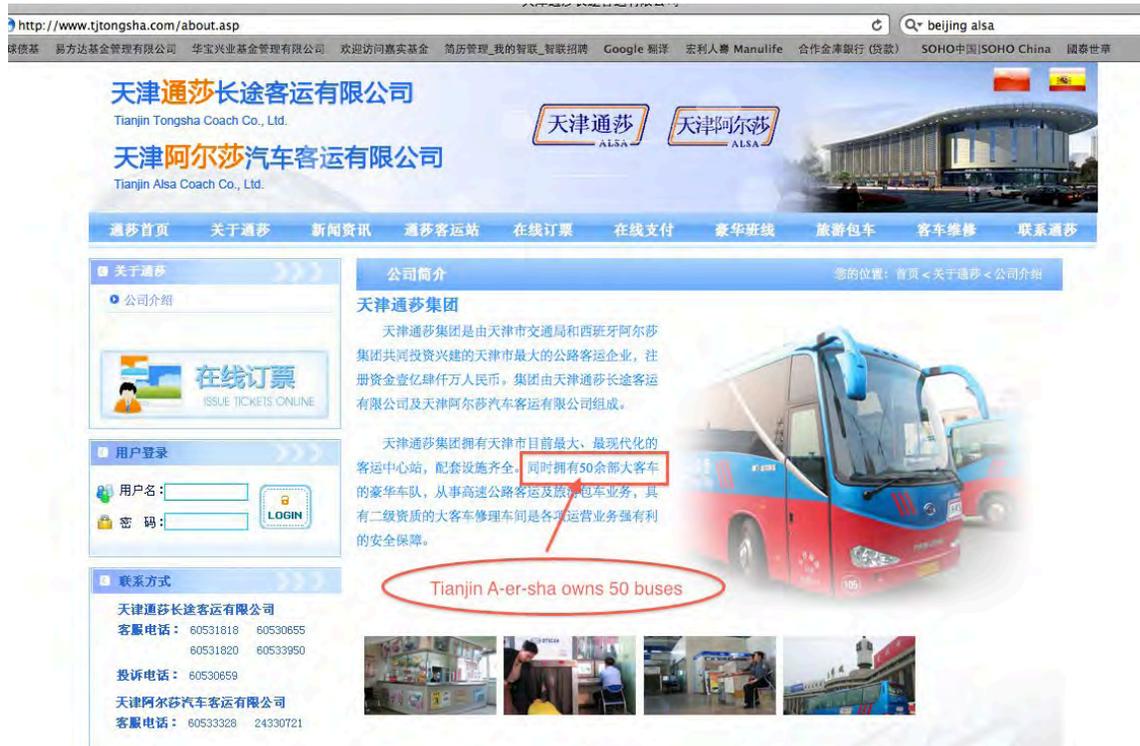
福建闽深发快速客运有限公司

福建闽深发快速客运有限公司由闽运总公司与深圳市运发实业总公司共同投资设立。闽运持有51%的股权。公司主营:道路旅客运输,闽通直通客运。公司拥有各类等级营运车辆9辆。

Fujian Min-shen-fa Express Passenger Transportation Co., Ltd
Listed on CTR Report / page 29

The company owns 9 buses

The CTR report says it owns 50 buses.



The CTR report says it owns 122 buses.

The websites above corroborate the data in the advertiser kit, and show that the CTR report is valueless. The below is a comparison of discrepancies between the CTR report and the advertiser kit by city.

City or Province	CTR Report - Number of Buses	Ad Kit - Number of Buses
Shanghai	2,127	297
Beijing	1,497	548
Tianjin	1,509	760
Chongqing	1,230	750
Nanjing	1,176	808
Chengdu	917	559
Yancheng	624	370
Shijiazhuang	607	88
Shantou	523	197
Changzhou	502	411
Guangzhou	501	384
Huaian	495	337
Huizhou	276	356
Total	11,984	5,865

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The above-described issues reflect the potential problems in relying on market research sponsored by the target company. Again, it is obvious to us that CTR did not develop these inaccurate numbers in a vacuum, and we hold the Company responsible for these misstatements.

Approximately 25% of CCME’s Network Operator Buses are Independently Owned, and Are Not Covered by Agreements with CCME.

According to the bus drivers and operators with whom we spoke, approximately 25% of the buses in a given operator’s network are independently owned and operated. These buses are not be covered by agreements between CCME and the operators. The independently owned buses typically do not have CCME equipment. We need to conduct further investigation to see whether this portion has already been excluded from the advertising kit spreadsheet.

We Believe that Over Half of the Buses on which CCME has Placed Screens do not Actually Show CCME’s Content, which Makes CCME’s Revenue Claims More Outlandish.

Many of the buses in CCME’s network also have DVD players connected to the CCME-provided screens. Based on our surveys of over 50 buses, we believe that fewer than half of the buses in CCME’s network are actually showing CCME’s content. The drivers instead show DVDs. (Passengers often lend DVDs to the drivers to show during the trip.)

CCME’s screens are connected to DVD players that can override CCME Content. CCME’s hard drive players are installed in bus dashboards similar to the way one would install an aftermarket car stereo. In many cases, the buses already had a DVD player installed in the dashboard. CCME will then install its player in the slot above or below the DVD player. The following two pictures show bus dashboards with CCME equipment.



CCME ad player on top, DVD player in middle, bottom hardware unknown.



CCME ad player on top, DVD player below.

Bus drivers generally have the option to play whichever option they choose – CCME content or DVDs. We note that driver compliance is higher in Beijing though. According to one

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driver in Beijing (confirmed in CCME's network), his company removed the DVD players on its buses because of copyright issues. We also learned the CCME is directly paying some of the Beijing drivers to play its content. CCME seems to pay extra attention to Beijing operation because it uses it as a showcase for investors.

Below is a picture of a CCME screen that is clearly connected to a bus DVD player.



Bus drivers often play DVDs that passengers bring onboard.



A CCME monitor with external connector visible.



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Upsetting the Apple Cart

In an apparent attempt to confer legitimacy on itself, CCME states that it is doing business with prestigious multinational brands, including Apple Inc. (NASDAQ: AAPL). This is a lie.

On December 28, 2010, the Company issued a press release in which it announced that it had launched an online shopping platform, www.switow.com¹⁶ (“SWITOW”). In the release, it stated that “[SWITOW] has already signed contracts with many prestigious global and Chinese domestic companies or their distributors such as Apple...”

AAPL only has two online distributors in China, one of which is Amazon.com subsidiary Joyo (www.amazon.cn). AAPL does not have any agreement with SWITOW (or CCME). Further it does not permit its China licensees to sub-license. Therefore, CCME is abjectly lying about this agreement.

CCME Claims that its Top 10 Advertisers Include Large Global Brands. We Doubt this is True.

Seeing is not believing in this case. It is not uncommon for small media companies in China to show ads from large prestigious brands with which they have no contract or business relationship. Usually this is done in order to impress potential advertisers. We suspect that CCME does this to a fair extent, but to impress investors.

We surveyed six major buyers of outdoor digital media in China to understand their opinions of CCME’s platform. This proved to be difficult because none of them had ever heard of CCME. Strangely, these buyers represent some of the same advertisers that CCME trumpets as clients. It is hard to imagine that the clients buy CCME media outside of the buyers – after all, CCME claims that the large majority of its revenue comes through agencies, rather than directly.

¹⁶ See CCME press release “China MediaExpress Holdings, Inc. Launches New Shopping Platform – SWITOW” (December 28, 2011).



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The following are the six buyers we surveyed (including the respondents' titles), along with a list of each company's major clients.

Company	Position/Title	Description / Major Clients
VivaKi Exchange	Senior Director	One of the largest media buyers in China. Clients include Lexus, Samsung, Tencent QQ, UBS
Kinetic	Senior Account Manager	One of the largest outdoor media buyers in China. Clients include Volkswagen, Dell, Lenovo, China Mobile
Heartland	Associate Director	One of the largest 4A media buyers in China. Clients include Nokia, Coca-Cola, Pernod Ricard Group, Master Kong
OMD	Buying Director	One of the largest 4A media buyers in China. Clients include Apple, Intel, HP, GE, Dong Feng Motor Company
Dentsu	Business Director	One of the largest Japanese advertising companies in China. Clients include Toyota, Canon, Honda, Lenovo
MediaCom	Business Director	One of the world's largest 4A media buyers. Clients include Volkswagen, GlaxoSmithKline, Dell, COFCO, Shell

Three of CCME's Top Ten advertisers are represented by media buyers that have never heard of CCME. Note that CCME claims three of its Top Ten advertisers are China Mobile, Master Kong, and The Coca-Cola Company (NYSE: KO).¹⁷ Those advertisers are represented in the above table respectively by Kinetic and Heartland.

It is particularly telling that Heartland has not heard of CCME. All of KO's outdoor media buying in Beijing, Shanghai, Guangzhou, Shenzhen, Wuhan, Chengdu, Chongqing, Shenyang, and Dalian is done by Heartland.¹⁸ CCME claims to have sales centers in all but three of the foregoing cities.¹⁹ KO spends 20% to 30% of its annual China media budget through Heartland.²⁰ Yet, the Associate Director at Heartland we surveyed had never heard of CCME.

Two of CCME's other purported advertisers are also represented by media buyers that have never heard of the Company. CCME claims that Toyota and Lenovo are advertisers. A CCME investor presentation goes so far as attribute the following quote to Lenovo: "China

¹⁷ See Appendix.

¹⁸ See http://www.cei.asia/searcharticle/2010_02/Heartland-China-retains-Coca-Cola-Chinas-out-of-home-media-account/38795.

¹⁹ See Appendix.

²⁰ *id.*



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MediaExpress’ media is much lower cost than traditional media, which is the main reason we chose CCME.”²¹

It appears the two media buyers that consider Lenovo to be a major client were unaware their client had developed an interest in low cost media.

We asked these buyers how many hours of airtime they buy each month from AirMedia Group, Inc. (NASDAQ: AMCN), Focus Media Holding Ltd. (NASDAQ: FMNC), VisionChina Media Inc. (NASDAQ: VISN), and Bus Online Co. Ltd. (private). Note that VISN and Bus Online are major operators of intra-city (as opposed to CCME’s model of inter-city) bus digital televisions.

Q: Approximately how many hours of airtime do you purchase for your clients each month on the following platforms?

Platform	Vivaki Exchange	Kinetic	Heartland	OMD	Dentsu	MediaCom	Average	Total
AMCN	4	5	5	5	56	8	13.8	83
FMNC	8	5	10	10	24	4	10.2	61
VISN	10	0	1	1	0	0	2.0	12
Bus Online ⁽¹⁾	16	0	1	0	0	0	2.8	17
CCME ⁽²⁾	0	0	0	0	0	0	0.0	0

⁽¹⁾Bus Online is not a publicly traded company.

Again, none of the buyers had even heard of CCME, which is profound considering that three of the buyers purchase slots on intra-city bus operators VISN and Bus Online.

Two Small Media Buyers That Buy Intra-City Bus Digital Media Had Also Never Heard of CCME.

We decided to test a theory that the most profitable outdoor digital media company in China would be better known among smaller media buyers. Our results were no better. We spoke with two smaller Shanghai-based media buyers that buy advertising on Bus Online’s platform. Neither company – Shanghai Yun Xiang Advertising Co. Ltd. nor Shanghai Jun Zhe Advertising Co. Ltd. – had ever heard of CCME.

Like RINO, CCME’s “Competitors” Do Not Know the Company.

We consider it to be a bad sign when a company’s reported financials would make it among the largest in its industry, yet the competition does not know much – or anything – about it. This was one of the most telling aspects of our work on RINO, and it is present again with CCME.

²¹ See Appendix.



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Management at VISN and AMCN told us that they have not been exposed to CCME through industry circles. Rather, they first learned about CCME from investor queries. The person with whom we spoke at Bus Online (privately owned) had not previously heard of CCME. (Note that VISN and Bus Online operate intra-city bus digital advertising networks.) In contrast, AMCN, VISN, and Bus Online are quite familiar with each other as well as with FMCN – both on personal and business levels. We doubt that CCME could have flown under the radar to this extent while being far and away the most profitable digital outdoor media company in China.

CCME Claims that the Beijing Airport Express Bus Contract will Generate \$30 million to \$36 million per year. We Believe the Real Number is Many Millions of Dollars Lower.

We do not believe that the airport express buses – particularly the Beijing Capital Airport express bus – generate anywhere near the revenue that CCME claims they do. CCME reported that its airport express bus business generated about \$15 million in Q3 2010 revenue.²² Management states that the Beijing Capital Airport express buses account for 50% to 60% of the airport express bus revenue. On an annualized basis, Beijing Capital Airport express buses would generate approximately \$30 million to \$35 million.

These numbers are beyond belief when compared to the \$35 million to \$40 million in digital advertising annual revenue that AMCN generates at Beijing Capital Airport for the following reasons:

- CCME has televisions on approximately 100 Beijing Capital Airport express buses. AMCN has 119 82” standalone digital frames, 58 108” digital frames in baggage claims, 418 52” TV-attached digital frames, and 418 46” digital TV screens. In other words, AMCN has almost 1,000% more digital advertising points in the airport. (Note that all of the 23 airport express buses we surveyed had only one TV screen each. We subsequently discuss CCME’s misrepresentations about the number of screens per bus.)
- CCME’s televisions provide exposure to the traveler segment that is more cost conscious because they eschew taking private cars and taxis to the airport. AMCN’s digital screens cover every passenger in every terminal – including the highest income demographics.

Further AMCN, and then FMCN, used to operate the digital televisions on the Beijing Capital Airport express buses. AMCN and FMCN, despite being far less profitable than CCME, were evidently unmotivated to keep the routes. AMCN management could not provide us with the historical figures (the airport express business was pre-IPO), but they stated categorically that they generated far less revenue than \$30 million. Given that AMCN and FMCN each generate lower gross margins than CCME purports to generate, one wonders why they would leave such a profitable business to CCME – particularly given that based on our surveys of media buyers, AMCN and FMCN would seem to be in much better positions to sell the ads.

²² See CCME September 30, 2010 Form 10-Q.



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We have observed that out of its entire network, the airport express buses (particularly Beijing) come closest to resembling the Company's description – the only issue we identified with the airport express bus operations is the probable gap between reported revenue and real revenue.

We Believe that the Revenue for the Five Other CCME Airport Express Routes is Similarly Overstated.

AMCN offers another opportunity to put CCME's reported numbers in perspective. CCME is claiming that it generated \$15 million in Q3 2010 from express buses operating at six airports. This number is about 200% the Q3 2010 revenue that AMCN derived from its 2,200 digital television screens in 38 airports, including in 26 of the 30 busiest airports in China.

CCME Has Little Presence in China's Two Largest Media Markets in China: Beijing and Shanghai.

CCME Has Little Presence in China's Two Largest Media Markets in China: Beijing and Shanghai, Giving us Additional Reason to Doubt CCME's Reported Numbers.

CCME's spreadsheet lists only 296 buses in Shanghai, which is the second largest ad market in China. Even worse, 278 of the buses are charter tour buses. In other words, they are not regularly scheduled long distance buses. Major advertisers do not value advertising in charter buses because the unknown demographics and the impossibility of knowing when and how often ads will be shown. We doubt that CCME generates more than a de minimus amount of revenue from Shanghai.

CCME only operates 548 long distances buses that travel to Beijing, which is China's largest ad market. The 548 represents no more than 2.0% of the "over 27,200" buses claims to operate. (We discuss the Beijing airport buses previously in this report.)

With such an insignificant presence in China's two largest media markets, we do not believe CCME's reported revenue numbers.

CCME is also Lying to Investors about the Numbers of Screens on its Buses. We Interpret this as Confirming the Business Model is not Very Profitable.

CCME tells investors that it has an average of over two LCD Screens per bus.²³ This is not true. CCME's sales spreadsheet shows an average of 1.45 screens per bus.²⁴ In our fieldwork, we surveyed over 50 buses, and found that only buses on the Beijing to Qidong route had more than one screen. Therefore we believe that the advertiser kit is fairly accurate with respect to screens.

²³ See the CTR report at http://www.ccme.tv/eng/pns/intercitybus_02.pdf.

²⁴ This is based on the screen tallies for 5,864 buses. There are a number of buses in the spreadsheet for which the Company does not list the number of screens.



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Lying about the screens is significant for two reasons: First, with only one screen per bus, it is hard to hold the attention of many of the passengers, which implies that the platform delivers less value to advertisers. Second, we believe that CCME's unwillingness to spend \$200 per bus more on an extra screen (despite claiming it actually does) shows that the business is much less profitable than CCME claims.

CCME is Lying About the Number of Bus Operators with which it does Business. In this Case, we are Somewhat Impressed.

CCME claims that it deals with only 63 bus operators,²⁵ which gives the impression that its market consists of large players and is thus easier to manage. In reality, its sales spreadsheet lists approximately 250²⁶ bus operators. A number of these operators have only a handful of buses. (Note that there are 5,222 buses – 41.6% – for which for which the sheet does not list operators, so the total number of operators is likely a decent bit larger.)

The significantly larger number of operators means that it is harder to control whether the drivers are playing CCME content or DVDs. A larger number of bus operators presumably makes maintaining the equipment and updating the content more difficult. Kudos to CCME's management for anticipating that investors may look less favorably on the Company's model if it stated the true number of operators. This is clearly a more sophisticated management than those on which we have written in the past.

CCME's Target Audience is Mainly a Sub-Greyhound Demographic.

CCME's claim that its typical inter-city bus passenger is a middle-income white-collar office worker²⁷ is wrong. Inter-city buses are the Greyhounds of China, except lower end. Unlike in the United States (which has a similar land mass to China), China has an excellent rail network. Its network consists of a range of travel options – high speed trains similar to those in Europe and Japan to conventional multi-class and sleeper trains. There are ample affordable rail options for middle-income office workers. Beyond trains, China has a first rate air transportation network, and private car ownership is becoming common among middle-income families.

With the exception of routes into and out of Tier 1 cities (which are a small percentage of CCME's routes), the prevailing demographic on China's inter-city buses is low-end, consisting of migrant workers, students, maids, and subsistence farmers.

Make no mistake, China's poor are much poorer and less educated than America's poor. There are myriad articles discussing the gap between China's poor and middle class, so we will not dwell on this point. Narrowing this gap is one of the government's top priorities, but it will take two or more generations to bring the gap in line with developed countries.

²⁵ CCME Form 10-Q September 30, 2010 p. 16.

²⁶ The ambiguity is due to some possible type-o's in the advertiser kit spreadsheet.

²⁷ See Appendix.



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VISN and Bus Online illustrate how low-end the CCME demographic is. VISN and Bus Online operate live television broadcasts (inherently more valuable to advertisers than recorded content) on intra-city buses. Intra-city buses typically serve daily commuters – many of who have office jobs in the cities.

In our survey of media buyers, we asked them to rate and comment on the suitability of VISN and Bus Online’s platforms for advertising i) a mass market beverage (e.g., Coca-Cola or Pepsi) and ii) a personal computer (e.g., Lenovo). (We asked the same questions of CCME’s platform, but none could comment because of their lack of familiarity with CCME.) The questions and the buyers’ responses are as follows:

Q: Please rate the suitability of each platform for advertising a mass-market beverage (e.g. Coca-Cola, Pepsi) from 1 to 5 (with 5 being highly suitable, 3 somewhat suitable, and 1 unsuitable). Provide an explanation for your answer.

Platform: VISN					
Respondent	Value	Comments	Respondent	Value	Comments
Vivaki Exchange	5	Wide-spread media platform, can reach different kinds of audiences	OMD	5	Suitable media platform The target audience is low (young and low income), only good for FMCG products
Kinetic	5	Wide coverage	Dentsu	5	
Heartland	5	Wide coverage	MediaCom	5	Wide range, the media platform is pertinent

Platform: Bus Online*					
Respondent	Value	Comments	Respondent	Value	Comments
Vivaki Exchange	5	Easy to reach large quantity of audience and attract attention	OMD	4	An additional effective complement of Vision China
Kinetic	4	Target audience is suitable	Dentsu	NA	Never heard of it The media platform is similar to Vision China but with minor coverage
Heartland	4	Similar to Vision China	MediaCom	4	

Q: Please rate the suitability of each platform for advertising a personal computer (e.g., Lenovo) from 1 to 5 (with 5 being highly suitable, 3 somewhat suitable, and 1 unsuitable) ” and provide a brief explanation of the reason for your answer:

Platform: VISN					
Respondent	Value	Comments	Respondent	Value	Comments
Vivaki Exchange	4	Suitable for most computer products	OMD	3	The targeted audience is suitable for low –end computers Media environment is poor, not suitable for computer customers. More suitable for lower class computer products.
Kinetic	3	Suitable for low end computer	Dentsu	1	
Heartland	2	Good for low end products	MediaCom	3	

Platform: Bus Online*					
Respondent	Value	Comments	Respondent	Value	Comments
Vivaki Exchange	3	Audience has potential. Good platform for supplementing other media	OMD	2	Low class target audience Basically have not heard much about this company, not likely will cooperate
Kinetic	1	The target audience is too low class	Dentsu	1	
Heartland	1	Target audience is low end	MediaCom	1	The target audience is too low class

From the above responses, it becomes clear that rider demographics on intra-city buses are a concern for higher price point products. There is a large gap between the income levels of intra- and inter-city bus riders.

CCME’s Business Has Low Barriers to Entry (Aside from Lack of Attractiveness). That Special Hardware? Fuggedaboutit.

To the extent that CCME does not have major competition, it is because the business model is unattractive. CCME’s hardware supplier, Hangzhou Yusong (“Yusong”), sells its controllers and screens to any willing buyer on Alibaba. According to our conversation with Yusong, a “long distance bus ad player and screen” cost only \$320 (RMB 2,100) together. There is a discount for volume orders. The supplier also said that there are a lot of companies in Shenzhen that produce such systems.

We understand that CCME is expecting to increase its capital expenditures. Unless it plans to actually buy buses, we do not understand how there is such a need.



The hard disk advertising controller from CCME’s supplier. Note that anybody can buy this or similar products from this supplier, as well as others who make similar equipment.



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Financials

We estimate that CCME generated 2009 revenue no greater than \$17 million. We base this estimate on the metric of revenue per employee in sales and marketing. While advertising revenue is not perfectly correlated to sales / marketing employees, we believe that the correlation is strong.

The below table shows 2009 revenue, revenue by employee, and revenue by sales / marketing employee for AMCN, FMCN, VISN, and CCME. Note that AMCN's media is generally the most expensive because it reaches the top tier market in China; therefore, it is unsurprising that its revenue per sales and marketing employee is the highest by a decent margin.

	AMCN	FMCN	VISN	CCME ⁽¹⁾	CCME ⁽²⁾
2009 Net Revenue	152,530,000	505,035,000	120,686,000	95,934,000	95,934,000
Employees	795	4,800	553	161	161
Revenue / Employee	191,862	105,216	218,239	595,863	595,863
Sales & Marketing Employees	370	1,594	368	7	70
Revenue / S&M Employee	412,243	316,835	327,951	13,704,857	1,370,486

⁽¹⁾ CCME's 10-K (p. 21) states that CCME has seven employees in "client service." It does not otherwise specify salespeople.

⁽²⁾ We add the 63 "business operation" employees to the seven client service employees.

CCME's 10-K suggests that it has only seven sales people. Because we believe that CCME likely has more than seven salespeople, we added the 63 "business operation" employees to the seven client service employees. Based on our visit to CCME's Fuzhou headquarters and Beijing office, we believe that 70 salespeople is a fair estimate of the number of salespeople CCME has.

	VISN	Discount Factor	CCME
Revenue / S&M Employee	327,951	25.0%	245,963
CCME Estimated Salespeople			70
CCME Estimated Revenue			17,217,432

Because VISN has a somewhat similar business model to that of CCME, we chose VISN's revenue per sales and marketing employee as a baseline. For the numerous reasons outlined in this report, we believe that the productivity of a CCME salesperson would be far less than that of his counterpart at VISN. (Our dealing with a salesperson in CCME's Fuzhou headquarters reinforced that view.)

Regardless, we discounted the productivity of VISN's salespeople only 25%. Multiplying that by our estimate of 70 salespeople, we arrive at \$17.2 million in revenue. We note that FMCN had a 2009 net income margin of 9%. AMCN and VISN both lost money that year. To be generous to CCME, if we assume it had a 10% net income margin, then it generated net income of \$1.7 million or diluted EPS of \$.05.



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CCME may respond that it has an army of agents serving as proxy salespeople, but that would further call into question its gross margin. Agencies would clearly seek to earn a return on their investments in staff.



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APPENDIX

Selected slides from the CCME November, 2010 investor presentation deck

Business Overview

- CCME operates an advertising media network targeting the travelling population

Network



Inter-city Buses

- Connecting 1st-, 2nd-, and 3rd-tier cities
- Average journey time around 2.5 hours



Airport Express Buses

- Connecting airport to cities
- Average journey time around 1 hour

Target Audience

- Average age 30 (majority male)
- Travel for business or tourism
- Mid-to-high income group

- PMEB group (Professional, Management, Executives, Businessman) is majority
- High education level
- High income and consumption level group



Sales Model

- CCME's sales model is to further grow its agency sales channel, and actively develop its direct sales channel



● Agencies
★ Sales Centers

Sales Agencies

- Over 30 agencies, 2-4 agencies in each region (as of June 2010)
- Cooperating for an average of 2.5 years
- All agencies are major regional advertising companies
- Annual media purchase contract, monthly settlement

- Serve agents e.g., feedback on broadcasting monitoring
- Visit each agent 2-3 times per week

Direct Sales Team

- 113 salespeople - stationed in 14 sales center (as of June 2010)
- Provides services to agencies, meanwhile actively seeking direct advertisers

- Clients who purchase regional media ads, such as Aier Ophthalmology, Haier and China Telecom provincial subsidiaries

- 21 minutes of advertising time sold every month

- Clients who purchase national media ads, such as Industry Bank, Micoe, Alibaba

- 11.2 minutes of advertising time sold every month

Our target: to generate 50% sales from direct advertisers by 2013, while maintaining good relationship with agencies



Advertisers

- Our advertising clients are national brands mainly: food & beverage (F&B), telecom and apparel sectors

Selected Advertisers



Top Ten Advertisers

Rank	2009			1H' 10		
	Brand	Sector	Ad minutes	Brand	Sector	Ad minutes
1	CMCC	Telecom	40.28	China Telecom	Telecom	60
2	Coca cola	F&B	36.33	CMCC	Telecom	58.5
3	Unit-present	F&B	36.08	Coca cola	F&B	52.5
4	China Telecom	Telecom	36.08	Unit-present	F&B	51.75
5	Pepsi	F&B	33.33	Pepsi	F&B	49
6	Master Kong	F&B	27.42	Eratat	Apparel	41
7	Eratat	Apparel	20.25	Xiduoduo	F&B	39.5
8	Xiduoduo	F&B	18.00	Master Kong	F&B	35.25
9	GuJingGong	F&B	17.83	GuJingGong	F&B	29.5
10	Rejiaman	Health care products	17.33	Seven wolf	Apparel	28.5

Advertiser's Voice

Pepsi: China MediaExpress promotes our products to tier 2 cities and towns by its large scale inter-city bus network, which is highly helpful to our sales expansion.

CMCC: China MediaExpress' network penetrates large target audience precisely. It fits our products very well.

Lenovo: ChinaMediaExpress' media cost is much lower than traditional media, which is the main reason that we chose CCME

