

NANO VIRICIDES, INC.
Form 424B5
March 01, 2019

**PROSPECTUS SUPPLEMENT Filed Pursuant to Rule 424(b)(5)
(to Prospectus March 1, 2017) Registration No. 333-216345**

NANO VIRICIDES, INC.

6,944,446 Shares Of Common Stock

Pursuant to this prospectus supplement and the accompanying prospectus, we are offering for sale, directly to selected investors, 6,944,446 shares of common stock, par value \$0.001 per share (the "Common Stock") at a price of \$0.36 per share. We will receive gross proceeds of \$2,500,000 from this offering.

We will issue shares of Common Stock at a purchase price of \$0.36 per share, for an aggregate offering price of \$2,500,000. Our Common Stock trades on the NYSE American under the symbol "NNVC." On February 27, 2019, the last reported sale price of our Common Stock on the NYSE American was \$0.40 per share. You are urged to obtain current market quotations of the Common Stock.

We have retained Chardan Capital Markets, LLC as placement agent in connection with this offering. The placement agent has no obligation to buy any of the securities from us or to arrange for the purchase or sale of any specific number or dollar amount of securities. See "Plan of Distribution" beginning on page S-23 of this prospectus supplement for more information regarding these arrangements.

Investing in our securities involves a high degree of risk. See "Risk Factors" beginning on page S-6 of this prospectus supplement.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus supplement or the accompanying prospectus. Any representation to the contrary is a criminal offense.

	Per Share	Total
Offering price of Common Stock	\$0.36	\$2,500,000
Placement agent fees (1)	\$0.018	\$125,000
Proceeds, before expenses, to NanoViricides, Inc.	\$0.342	\$2,375,000

(1) We have agreed to pay the placement agent a cash fee representing 5% of the gross purchase price paid for the shares.

We estimate the total expenses of this offering, excluding the placement agent's fees, will be approximately \$75,000.00. The placement agent is not purchasing or selling any of our shares pursuant to this prospectus supplement or the accompanying prospectus, nor are we requiring any minimum purchase or sale of any specific number of shares. We expect that delivery of the 6,944,446 shares of Common Stock being issued and sold at the closing pursuant to this prospectus supplement will be made to the purchaser on or about March 1, 2019.

Chardan

The date of this prospectus supplement is February 28, 2019.

Prospectus Supplement

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Prospectus

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ABOUT THIS PROSPECTUS SUPPLEMENT

This document is in two parts. The first part is this prospectus supplement, which describes the terms of this offering and also adds to and updates information contained in the accompanying prospectus and the documents incorporated by reference into the accompanying prospectus. The second part is the accompanying prospectus, which gives more general information about the shares of our common and preferred stock and other securities we may offer from time to time under our shelf registration statement, some of which may not apply to the securities offered by this prospectus supplement. To the extent there is a conflict between the information contained in this prospectus supplement, on the one hand, and the information contained in the accompanying prospectus or any document incorporated by reference therein, on the other hand, the information in this prospectus supplement shall control.

We further note that the representations, warranties and covenants made by us in any agreement that is filed as an exhibit to any document that is incorporated by reference in the accompanying prospectus were made solely for the benefit of the parties to such agreement, including, in some cases, for the purpose of allocating risk among the parties to such agreement, and should not be deemed to be a representation, warranty or covenant to you. Moreover, such representations, warranties or covenants were accurate only as of the date when made. Accordingly, such representations, warranties and covenants should not be relied on as accurately representing the current state of our affairs.

You should rely only on the information contained in this prospectus supplement, the accompanying prospectus and information incorporated by reference herein and therein. We have not authorized anyone else to provide you with different information. You should not assume that the information in this prospectus supplement or the accompanying prospectus is accurate as of any date other than the date on the front of those documents or that any document incorporated by reference is accurate as of any date other than its filing date. You should not consider this prospectus supplement or the accompanying prospectus to be an offer or solicitation relating to the securities in any jurisdiction in which such an offer or solicitation relating to the securities is not authorized. Furthermore, you should not consider this prospectus supplement or the accompanying prospectus to be an offer or solicitation relating to the securities if the person making the offer or solicitation is not qualified to do so, or if it is unlawful for you to receive such an offer or solicitation.

This prospectus supplement is part of a registration statement, and the amendments thereto, that we have filed with the Securities and Exchange Commission (Registration File No. 333-216345) utilizing a “shelf” registration process. Under this shelf registration process, we are offering to sell shares of Common Stock using this prospectus supplement and the accompanying prospectus. In this prospectus supplement, we provide you with specific information about the securities that we are selling in this offering. Both this prospectus supplement and the accompanying prospectus include important information about us, our securities being offered and other information you should know before investing. This prospectus supplement also adds, updates and changes information contained in the accompanying prospectus. You should read this prospectus supplement and the accompanying prospectus as well as additional information described under “Incorporation of Certain Documents by Reference” on page S-24 of this prospectus

supplement before investing in our securities.

This prospectus supplement contains summaries of certain provisions contained in some of the documents described herein, but reference is made to the actual documents for complete information. All of the summaries are qualified in their entirety by the actual documents. Copies of some of the documents referred to herein have been filed, will be filed or will be incorporated by reference as exhibits to the registration statement of which this prospectus supplement is a part, and you may obtain copies of those documents as described below under the heading “Where You Can Find More Information.”

Unless the context requires otherwise, in this prospectus supplement and the accompanying prospectus the terms “NanoViricides,” “we,” “us” and “our” refer to NanoViricides, Inc., a Nevada corporation.

Prospective investors may rely only on the information contained in this prospectus supplement. We have not authorized anyone to provide prospective investors with different or additional information. This prospectus supplement is not an offer to sell nor is it seeking an offer to buy these securities in any jurisdiction where the offer or sale is not permitted. The information contained in this prospectus supplement is correct only as of the date of this prospectus supplement, regardless of the time of the delivery of this prospectus supplement or any sale of these securities.

FORWARD-LOOKING INFORMATION

We caution you that certain statements contained in this prospectus supplement that are not related to historical results are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Statements that are predictive, that depend upon or refer to future events or conditions, or that include words such as “expects,” “anticipates,” “intends,” “plans,” “believes,” “estimates,” “hopes,” or similar expressions constitute forward-looking statements. They also include statements regarding:

- our future growth and profitability;
- our competitive strengths; and
- our business strategy and the trends we anticipate in the industries and economies in which we operate.

These forward-looking statements are based on our current expectations and are subject to a number of risks, uncertainties and assumptions. These statements are not guarantees of future performance and are subject to risks, uncertainties, and other factors, some of which are beyond our control, are difficult to predict, and could cause actual results to differ materially from those expressed or forecasted in the forward-looking statements. Important factors that could cause actual results to differ materially from those in forward-looking statements include:

- economic downturns, reduced capital expenditures, consolidation and technological and regulatory changes in our industry;
- the highly competitive nature of our industry;
- our ability to attract and retain qualified managers and skilled employees;
- the outcome of our plans for future operations and growth; and
- the other factors referenced in this prospectus supplement, including, without limitation, under “Risk Factors.”

We believe these forward-looking statements are reasonable; however, you should not place undue reliance on any forward-looking statements, which are based on current expectations. Furthermore, forward-looking statements speak only as of the date they are made. If any of these risks or uncertainties materialize, or if any of our underlying assumptions are incorrect, our actual results may differ significantly from the results that we express in or imply by any of our forward-looking statements. These and other risks are detailed in this prospectus supplement, in the accompanying prospectus, in the documents that we incorporate by reference into this prospectus supplement and the accompanying prospectus and in other documents that we file with the Securities and Exchange Commission (the “Commission”). We do not undertake any obligation to publicly update or revise these forward-looking statements after the date of this prospectus supplement to reflect future events or circumstances. We qualify any and all of our forward-looking statements by these cautionary factors.

SUMMARY

This summary is not complete and does not contain all of the information you should consider before investing in the securities offered by this prospectus supplement and accompanying prospectus. You should read this summary together with the entire prospectus supplement and accompanying prospectus, including our financial statements, the notes to those financial statements, and the other documents identified under the headings “Where You Can Find More Information” and “Incorporation of Certain Documents by Reference” in this prospectus supplement, before making an investment decision. See the Risk Factors section of this prospectus supplement beginning on page S-6 for a discussion of the risks involved in investing in our securities.

Our Business

NanoViricides, Inc. is a global leader in the development of nanomedicine drugs against viruses. We are a development stage company with several drugs in various stages of pre-clinical development, including IND-enabling non-clinical studies. The Company is focused on bringing its topical treatment for shingles into human clinical trials, which we believe is our most advanced drug indication. Shingles is caused by reactivation of VZV (Varicella-Zoster Virus), which causes chickenpox in children. Several additional indications in the HerpeCide™ program are expected to follow. In addition, the Company has drug candidates in development against severe influenzas (including bird flu), HIV, Dengue, Ebola/Marburg and other viruses at different preclinical stages. The overall market size for our potential drugs is in the range of \$40~70 Billion. This broad pipeline is enabled by our unique post-immunotherapeutic “bind-encapsulate-destroy” technology platform.

We are a development-stage company creating special-purpose nanomaterials for anti-viral drugs based on a novel, first-in-class mechanism. The Company's novel nanoviricide® class of drug candidates are designed to specifically attack enveloped virus particles, on the same sites that they use to bind to cells, and dismantle them. Our unique biomimetic approach promises that a virus cannot escape our nanoviricide drugs due to mutations, if the virus-binding ligands perform as designed.

Company Information

Our principal executive offices are located at 1 Controls Drive, Shelton, Connecticut 06484. Our telephone number is (203) 937-6137. You may also contact us or obtain additional information through our internet website address at www.nanoviricides.com. Information contained on our website is not incorporated into this prospectus supplement and is not a part of this prospectus supplement.

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Offering Summary

This summary highlights certain information about this offering and selected information contained elsewhere in or incorporated by reference into this prospectus supplement. This summary is not complete and does not contain all of the information that you should consider before deciding whether to invest in shares of our common stock and warrants. For a more complete understanding of our company and this offering, we encourage you to read and consider carefully the more detailed information in this prospectus supplement and the accompanying prospectus, including the information incorporated by reference into this prospectus supplement and the accompanying prospectus, and the information referred to under the heading "RISK FACTORS" in this prospectus supplement on page S-6 and on page 3 of the accompanying prospectus, and in the documents incorporated by reference into this prospectus supplement and the accompanying prospectus.

6,944,446 shares of Common Stock.

Securities offered

See "Description of Securities" on page S-23 for a complete description of the factors you should consider carefully before deciding to invest in our Securities.

Shares of Common Stock Outstanding After Offering

69,501,000 shares of Common Stock will be issued and outstanding at the Closing. (1)

Risk Factors

Investing in our common shares and warrants involves a high degree of risk. Please read the information contained in and incorporated by reference under the heading "RISK FACTORS" on page S-6 of this prospectus supplement and page 6 of the accompanying prospectus, and under similar headings in the other documents, including our Annual Report on Form 10-K and our Quarterly Reports on Form 10-Q, that are incorporated by reference into this prospectus supplement and the accompanying prospectus.

Market for the common stock

Our Common Stock trades on the NYSE American under the symbol "NNVC." However, there is no established public trading market for the Warrants, and we do not expect a market to develop.

Use of proceeds

We estimate that our net proceeds from the Closing will be approximately \$2,300,000, after deducting the placement agent fee and estimated expenses payable by us in connection with such closing. We intend to use the net proceeds from this offering for working capital and general corporate purposes.

Market for the common stock

Our Common Stock trades on the NYSE American under the symbol "NNVC." However, there is no established public trading market for the Warrants, and we do not expect a market to develop.

Concurrent
Private
Placement

In a concurrent private placement, we are selling to the purchasers of our securities in this offering warrants (the "Warrants") to purchase 6,944,446 shares of our Common Stock. We will receive gross proceeds from the concurrent private placement transaction solely to the extent such Warrants are exercised for cash at an exercise price of \$0.61 per share. The warrants will not be exercisable until six (6) months after the date of issuance and will expire five years thereafter. The Warrants and the shares of Common Stock issuable upon the exercise of the Warrants are not being offered pursuant to this prospectus supplement and the accompanying prospectus and are being offered pursuant to the exemption provided in Section 4(a)(2) under the Securities Act and Rule 506(b) promulgated thereunder. See "Private Placement Transaction."

Risk factors

See "Risk Factors" beginning on page S-6 for a discussion of factors you should consider carefully before deciding to invest in our Securities.

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RISK FACTORS

Investing in our common stock involves risk. Before deciding whether to invest in our common stock, you should consider carefully the risks and uncertainties and assumptions discussed under the heading “Risk Factors” included in our most recent annual report on Form 10-K and most recent Form 10-Q which are on file with the SEC and are incorporated herein by reference, and which may be amended, supplemented or superseded from time to time by other reports we file with the SEC in the future. There may be other unknown or unpredictable economic, business, competitive, regulatory or other factors that could have material adverse effects on our future results. If any of these risks actually occurs, our business, business prospects, financial condition or results of operations could be seriously harmed. This could cause the trading price of our common stock to decline, resulting in a loss of all or part of your investment. Please also read carefully the section above entitled “Cautionary Note Regarding Forward-Looking Statements.”

Risks Specific to Our Business

Our company is a development stage company that has no products approved for commercial sale, never generated any revenues and may never achieve revenues or profitability.

Our company is a development stage company that has no products approved for commercial sale, never generated any revenues and may never achieve revenues or profitability. We are a development stage biopharmaceutical company. Currently, we have no products approved for commercial sale and, to date, we have not generated any revenues. Our ability to generate revenue depends heavily on:

- demonstration and proof of principle in pre-clinical trials that a nanoviricide is safe and effective;
- successful development of our first product candidate in our pipeline;
- our ability to seek and obtain regulatory approvals, including with respect to the indications we are seeking;
- the successful commercialization of our product candidates; and
- market acceptance of our products.

All of our existing product candidates are in early stages of development. It will be several years, if ever, until we have a commercial drug product available for resale. If we do not successfully develop and commercialize these products, we will not achieve revenues or profitability in the foreseeable future, if at all. If we are unable to generate revenues or achieve profitability, we may be unable to continue our operations.

We are a development stage company with a limited operating history, making it difficult for you to evaluate our business and your investment. We are in the development stage and our operations and the development of our proposed products are subject to all of the risks inherent in the establishment of a new business enterprise, including but not limited to:

- the absence of an operating history;
- the lack of commercialized products;
- insufficient capital;
- expected substantial and continual losses for the foreseeable future;
- limited experience in dealing with regulatory issues; the lack of manufacturing experience and limited marketing experience;
- an expected reliance on third parties for the development and commercialization of our proposed products;
- a competitive environment characterized by numerous, well-established and well capitalized competitors; and
- reliance on key personnel.

Because we are subject to these risks, you may have a difficult time evaluating our business and your investment in our company.

Our ability to become profitable depends primarily on the following factors:

- our ability to develop drugs, obtain approval for such drugs, and if approved, to successfully commercialize our nanoviricide drug(s);
- our R&D efforts, including the timing and cost of clinical trials; and
- our ability to enter into favorable alliances with third parties who can provide substantial capabilities in clinical development, regulatory affairs, sales, marketing and distribution.

Even if we successfully develop and market our drug candidates, we may not generate sufficient or sustainable revenue to achieve or sustain profitability.

We have incurred significant operating losses and may not ever be profitable. As of December 31, 2018, we had a cash and cash equivalent balance of \$3,903,672. Also, the Company has incurred significant operating losses since its inception, resulting in an accumulated deficit of \$87,764,601 at December 31, 2018. Such losses are expected to continue for the foreseeable future.

We will need to raise substantial additional capital in the future to fund our operations and we may be unable to raise such funds when needed and on acceptable terms.

While we believe we will be able to raise sufficient cash in the capital markets, to be able to take at least one of our drug candidates into initial human clinical trials, we currently do not have sufficient resources to complete the development and commercialization of any of our proposed products.

In the event that we cannot obtain acceptable financing, or that we are unable to secure additional financing on acceptable terms, we would be unable to complete development of our various drug candidates. This would necessitate implementing staff reductions and operational adjustments that would include reductions in the following business areas:

- research and development programs;
- preclinical studies and clinical trials; material characterization studies, regulatory processes;
- a search for third party marketing partners to market our products for us.

The amount of capital we may need will depend on many factors, including the:

- progress, timing and scope of our research and development programs;
- progress, timing and scope of our preclinical studies and clinical trials;
- time and cost necessary to obtain regulatory approvals;
- time and cost necessary to establish our own marketing capabilities or to seek marketing partners;
- time and cost necessary to respond to technological and market developments;
- changes made or new developments in our existing collaborative, licensing and other commercial relationships; and
- new collaborative, licensing and other commercial relationships that we may establish.

Our fixed expenses, such as real estate taxes and facility and equipment maintenance, rent, and other contractual commitments, may increase in the future, as we may:

- enter into leases for new facilities and capital equipment;
- enter into additional licenses and collaborative agreements; and
- incur additional expenses associated with being a public company.

We have limited experience in drug development and may not be able to successfully develop any drugs.

Until the formation of NanoViricide, Inc. (the Company's predecessor prior to the reverse merger in 2005) our management and key personnel had no experience in pharmaceutical drug development and, consequently, may not be able to successfully develop any drugs. Our ability to achieve revenues and profitability in our business will depend, among other things, on our ability to:

- develop products internally or obtain rights to them from others on favorable terms;
- complete laboratory testing and human studies;
- obtain and maintain necessary intellectual property rights to our products;
- successfully complete regulatory review to obtain requisite governmental agency approvals;
- enter into arrangements with third parties to manufacture our products on our behalf; and
- enter into arrangements with third parties to provide sales and marketing functions.

Development of pharmaceutical products is a time-consuming process, subject to a number of factors, many of which are outside of our control. Consequently, we can provide no assurance of the successful and timely development of new drugs.

Our drug candidates are in their developmental stage. Further development and extensive testing will be required to determine their technical feasibility and commercial viability. Our success will depend on our ability to achieve scientific and technological advances and to translate such advances into reliable, commercially competitive drugs on a timely basis. Drugs that we may develop are not likely to be commercially available for a few years. The proposed development schedules for our drug candidates may be affected by a variety of factors, including technological difficulties, proprietary technology of others, and changes in government regulation, many of which will not be within our control. Any delay in the development, introduction or marketing of our drug candidates could result either in such drugs being marketed at a time when their cost and performance characteristics would not be competitive in the marketplace or in the shortening of their commercial lives. In light of the long-term nature of our projects, the unproven technology involved and the other factors described elsewhere in "Risk Factors", we may not be able to complete successfully the development or marketing of any drugs.

We may fail to successfully develop and commercialize our drug candidates if they:

- are found to be unsafe or ineffective or fail to meet the appropriate endpoints in clinical trials;
- do not receive necessary approval from the FDA or foreign regulatory agencies;
- fail to conform to a changing standard of care for the diseases they seek to treat; or
- are less effective or more expensive than current or alternative treatment methods.

Drug development failure can occur at any stage of clinical trials and as a result of many factors and there can be no assurance that we or our collaborators will reach our anticipated clinical targets. Even if we or our collaborators complete our clinical trials, we do not know what the long-term effects of exposure to our drug candidates will be. Furthermore, our drug candidates may be used in combination with other treatments and there can be no assurance that such use will not lead to unique safety issues. Failure to complete clinical trials or to prove that our drug candidates are safe and effective would have a material adverse effect on our ability to generate revenue and could require us to reduce the scope of or discontinue our operations.

We must comply with significant and complex government regulations, compliance with which may delay or prevent the commercialization of our drug candidates.

The R&D, manufacture and marketing of drug candidates are subject to regulation, primarily by the FDA in the United States and by comparable authorities in other countries. These national agencies and other federal, state, local and foreign entities regulate, among other things, R&D activities (including testing in primates and in humans) and the testing, manufacturing, handling, labeling, storage, record keeping, approval, advertising and promotion of the products that we are developing. Noncompliance with applicable requirements can result in various adverse consequences, including approval delays or refusals to approve drug licenses or other applications, suspension or termination of clinical investigations, revocation of approvals previously granted, fines, criminal prosecution, recalls or seizures of products, injunctions against shipping drugs and total or partial suspension of production and/or refusal to allow a company to enter into governmental supply contracts.

The process of obtaining FDA approval has historically been costly and time consuming. Current FDA requirements for a new human drug or biological product to be marketed in the United States include: (1) the successful conclusion of pre-clinical laboratory and animal tests, if appropriate, to gain preliminary information on the product's safety; (2) filing with the FDA of an IND application to conduct human clinical trials for drugs or biologics; (3) the successful completion of adequate and well-controlled human clinical investigations to establish the safety and efficacy of the product for its recommended use; and (4) filing by a company and acceptance and approval by the FDA of a New Drug Application, or NDA, for a drug product or a biological license application, or BLA, for a biological product to allow commercial distribution of the drug or biologic. A delay in one or more of the procedural steps outlined above could be harmful to us in terms of getting our drug candidates through clinical testing and to market.

The FDA reviews the results of the clinical trials and may order the temporary or permanent discontinuation of clinical trials at any time if it believes the drug candidate exposes clinical subjects to an unacceptable health risk. Investigational drugs used in clinical studies must be produced in compliance with current good manufacturing practice, or GMP, rules pursuant to FDA regulations.

Sales outside the United States of products that we develop will also be subject to regulatory requirements governing human clinical trials and marketing for drugs and biological products and devices. The requirements vary widely from country to country, but typically the registration and approval process takes several years and requires significant resources. In most cases, even if the FDA has not approved a product for sale in the United States, the product may be exported to any country if it complies with the laws of that country and has valid marketing authorization by the appropriate authority. There are specific FDA regulations that govern this process.

We also are subject to the following risks and obligations, related to the approval of our products:

- The FDA or foreign regulators may interpret data from pre-clinical testing and clinical trials in different ways than we interpret them.

- If regulatory approval of a product is granted, the approval may be limited to specific indications or limited with respect to its distribution.

- In addition, many foreign countries control pricing and coverage under their respective national social security systems.

- The FDA or foreign regulators may not approve our manufacturing processes or manufacturing facilities.

- The FDA or foreign regulators may change their approval policies or adopt new regulations.

Even if regulatory approval for any product is obtained, the marketing license will be subject to continual review, and newly discovered or developed safety or effectiveness data may result in suspension or revocation of the marketing license.

If regulatory approval of the product candidate is granted, the marketing of that product would be subject to adverse event reporting requirements and a general prohibition against promoting products for unapproved or “off-label” uses. In some foreign countries, we may be subject to official release requirements that require each batch of the product we produce to be officially released by regulatory authorities prior to its distribution by us. We will be subject to continual regulatory review and periodic inspection and approval of manufacturing modifications, including compliance with current GMP regulations.

We can provide no assurance that our drug candidates will obtain regulatory approval or that the results of clinical studies will be favorable.

The Company reports summary of its studies as the data become available to the Company, after analyzing and verifying same, in its press releases.

All of our products in development are still in the pre-clinical stage, and not submitted to any regulatory agencies in any formal drug licensing or approval processes. We have previously held a pre-IND meeting with the US FDA regarding our anti-influenza drug candidates, in March 2012. However, since then, we have re-evaluated our priorities. We have now prioritized our HerpeCide™ program drug candidates as our highest priority candidates. We believe that we have obtained valuable information at the pre-IND meeting for our FluCide program that we believe we can apply to our HerpeCide program in a generalized manner.

Such strategic changes are necessitated due to the limited resources available to us for drug development. We perform such strategic changes in order to maximize our chances of entering into human clinical trials in the regulatory process in the earliest time frame possible, and within the funding available to the Company, guided by input from a number of sources. Such changes are designed to accelerate some programs and would lead to delays in some other programs that receive lower priority, due to our limited resources. We may not be able to accurately assess the effect of such changes on our business plan.

The testing, marketing and manufacturing of any product for use in the United States will require approval from the FDA. We cannot predict with any certainty the amount of time necessary to obtain such FDA approval and whether any such approval will ultimately be granted. Preclinical and clinical trials may reveal that one or more products are ineffective or unsafe, in which event further development of such products could be seriously delayed or terminated. Moreover, obtaining approval for certain products may require testing on human subjects of substances whose effects on humans are not fully understood or documented. Delays in obtaining FDA or any other necessary regulatory approvals of any proposed drug and failure to receive such approvals would have an adverse effect on the drug’s potential commercial success and on our business, prospects, financial condition and results of operations. In addition, it is possible that a proposed drug may be found to be ineffective or unsafe due to conditions or facts that arise after development has been completed and regulatory approvals have been obtained. In this event, we may be required to withdraw such proposed drug from the market. To the extent that our success will depend on any regulatory approvals

from government authorities outside of the United States that perform roles similar to that of the FDA, uncertainties similar to those stated above will also exist.

Even if we obtain regulatory approvals, our marketed drug candidates will be subject to ongoing regulatory review. If we fail to comply with continuing U.S. and foreign regulations, we could lose our approvals to market these drugs and our business would be seriously harmed.

Following any initial regulatory approval of any drugs we may develop, we will also be subject to continuing regulatory review, including the review of adverse experiences and clinical results that are reported after our drug candidates are made commercially available. This would include results from any post-marketing tests or vigilance required as a condition of approval. The manufacturer and manufacturing facilities we use to make any of our drug candidates will also be subject to periodic review and inspection by the FDA. The discovery of any previously unknown problems with the drug, manufacturer or facility may result in restrictions on the drug or manufacturer or facility, including withdrawal of the drug from the market. If we are required to withdraw all or more of our drugs from the market, we may be unable to continue revenue-generating operations. Reliance on third-party manufacturers entails risks to which we would not be subject if we manufactured drugs ourselves, including reliance on the third-party manufacturer for regulatory compliance. Our drug promotion and advertising is also subject to regulatory requirements and continuing FDA review.

Development of our drug candidates requires a significant investment in R&D. Our R&D expenses in turn, are subject to variation based on a number of factors, many of which are outside of our control. A sudden or significant increase in our R&D expenses could materially and adversely impact our results of operations.

We currently have sufficient funds on hand to take at least one drug candidate into IND application stage. We believe we will be pursuing a candidate from our HerpeCide™ program for an IND and initiating human clinical trials with the limited financial resources in hand.

The Company will be unable to proceed with its business plan beyond approximately September 30, 2019, without obtaining additional financing to support its budgeted Research and Development and other costs.

Because we expect to expend substantial resources on R&D, our success depends in large part on the results as well as the costs of our R&D. A failure in our R&D efforts or substantial increase in our R&D expenses would adversely affect our results of operations. R&D expenditures are uncertain and subject to much fluctuation. Factors affecting our R&D expenses include, but are not limited to:

- the number and outcome of clinical studies we are planning to conduct; for example, our R&D expenses may increase based on the number of late-stage clinical studies that we may be required to conduct;
- the number, extent, and outcome of pre-clinical studies we are planning to conduct; for example, our R&D expenses may increase based on the number and extent of IND-enabling pre-clinical studies including CMC Studies, Tox Package Studies, and Quality Programs that we may be required to conduct;
- the number of drugs entering into pre-clinical development from research; for example, there is no guarantee that internal research efforts will succeed in generating sufficient data for us to make a positive development decision;
- licensing activities, including the timing and amount of related development funding or milestone payments; for example, we may enter into agreements requiring us to pay a significant up-front fee for the purchase of in-process R&D that we may record as R&D expense.

We have limited experience in conducting or supervising clinical trials and must outsource all clinical trials.

We have limited experience in conducting or supervising clinical trials that must be performed to obtain data to submit in concert with applications for approval by the Food and Drug Administration (“FDA”). The regulatory process to obtain approval for drugs for commercial sale involves numerous steps. Drugs are subjected to clinical trials that allow development of case studies to examine safety, efficacy, and other issues to ensure that sale of drugs meets the requirements set forth by various governmental agencies, including the FDA. In the event that our protocols do not meet standards set forth by the FDA, or that our data is not sufficient to allow such trials to validate our drugs in the face of such examination, we might not be able to meet the requirements that allow our drugs to be approved for sale.

Because we have limited experience in conducting or supervising clinical trials, we must outsource our clinical trials to third parties. We have no control over their compliance with procedures and protocols used to complete clinical trials in accordance with standards required by the agencies that approve drugs for sale. If these subcontractors fail to meet these standards, the validation of our drugs would be adversely affected, causing a delay in our ability to meet revenue-generating operations.

We are subject to risks inherent in conducting clinical trials. The risk of non-compliance with FDA-approved good clinical practices by clinical investigators, clinical sites, or data management services could delay or prevent us from developing or ever commercializing our drug candidates.

Agreements with clinical investigators and medical institutions for clinical testing and with other third parties for data management services place substantial responsibilities on these parties, which could result in delays in, or termination of, our clinical trials if these parties fail to perform as expected. For example, if any of our clinical trial sites fail to comply with FDA-approved good clinical practices, we may be unable to use the data gathered at those sites. If these clinical investigators, medical institutions or other third parties do not carry out their contractual duties or obligations or fail to meet expected deadlines, or if the quality or accuracy of the clinical data they obtain is compromised due to their failure to adhere to our clinical protocols or for other reasons, our clinical trials may be extended, delayed or terminated, and we may be unable to obtain regulatory approval for or successfully commercialize our drug candidates.

We or regulators may suspend or terminate our clinical trials for a number of reasons. We may voluntarily suspend or terminate our clinical trials if at any time we believe that they present an unacceptable risk to the patients enrolled in our clinical trials. In addition, regulatory agencies may order the temporary or permanent discontinuation of our clinical trials at any time if they believe that the clinical trials are not being conducted in accordance with applicable regulatory requirements or that they present an unacceptable safety risk to the patients enrolled in our clinical trials.

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Our clinical trial operations will be subject to regulatory inspections at any time. If regulatory inspectors conclude that we or our clinical trial sites are not in compliance with applicable regulatory requirements for conducting clinical trials, we may receive reports of observations or warning letters detailing deficiencies, and we will be required to implement corrective actions. If regulatory agencies deem our responses to be inadequate, or are dissatisfied with the corrective actions that we or our clinical trial sites have implemented, our clinical trials may be temporarily or permanently discontinued, we may be fined, we or our investigators may be precluded from conducting any ongoing or any future clinical trials, the government may refuse to approve our marketing applications or allow us to manufacture or market our drug candidates or we may be criminally prosecuted. If we are unable to complete clinical trials and have our products approved due to our failure to comply with regulatory requirements, we will be unable to commence revenue-generating operations.

Efforts of government and third-party payers to contain or reduce the costs of health care may adversely affect our revenues even if we were to develop an FDA approved drug.

Our ability to earn sufficient returns on our drug candidates may depend in part on the extent to which government health administration authorities, private health coverage insurers and other organizations will provide reimbursement for the costs of such drugs and related treatments. Significant uncertainty exists as to the reimbursement status of newly approved health care drugs, and we do not know whether adequate third-party coverage will be available for our drug candidates. If our current and proposed drugs are not considered cost-effective, reimbursement to the consumers may not be available or sufficient to allow us to sell drugs on a competitive basis. The failure of the government and third-party payers to provide adequate coverage and reimbursement rates for our drug candidates could adversely affect the market acceptance of our drug candidates, our competitive position and our financial performance.

If we fail to comply with applicable continuing regulatory requirements, we may be subject to fines, suspension or withdrawal of regulatory approval, product recalls and seizures, operating restrictions and criminal prosecutions.

Confidentiality agreements with employees and others may not adequately prevent disclosure of trade secrets and other proprietary information. Disclosure of our trade secrets or proprietary information could compromise any competitive advantage that we have.

We depend upon confidentiality agreements with our officers, employees, consultants, and subcontractors to maintain the proprietary nature of the technology. These measures may not afford us sufficient or complete protection, and may not afford an adequate remedy in the event of an unauthorized disclosure of confidential information. In addition, others may independently develop technology similar to ours, otherwise avoiding the confidentiality agreements, or produce patents that would materially and adversely affect our business, prospects, financial condition, and results of operations.

We will rely upon licensed patents to protect our technology. We may be unable to obtain or protect such intellectual property rights, and we may be liable for infringing upon the intellectual property rights of others.

Our ability to compete effectively will depend on our ability to maintain the proprietary nature of our technologies and the proprietary technology of others with which we have entered into licensing agreements. We have exclusive licenses from TheraCour Pharma, Inc. to novel technologies, proprietary technologies, and knowhow, some of which has been filed in patent applications, and we expect to file patents of our own in the coming years. There can be no assurance that any of these patent applications will ultimately result in the issuance of a patent with respect to the technology owned by us or licensed to us. The patent position of pharmaceutical or biotechnology companies, including ours, is generally uncertain and involves complex legal and factual considerations. The standards that the United States Patent and Trademark Office use to grant patents are not always applied predictably or uniformly and can change. There is also no uniform, worldwide policy regarding the subject matter and scope of claims granted or allowable in pharmaceutical or biotechnology patents. Accordingly, we do not know the degree of future protection for our proprietary rights or the breadth of claims that will be allowed in any patents issued to us or to others. Further, we rely on a combination of trade secrets, know-how, technology and nondisclosure, and other contractual agreements and technical measures to protect our rights in the technology. If any trade secret, know-how or other technology not protected by a patent were to be disclosed to or independently developed by a competitor, our business and financial condition could be materially adversely affected.

We do not believe that any of the drug candidates we are currently developing infringe upon the rights of any third parties nor are they infringed upon by third parties; however, there can be no assurance that our technology will not be found in the future to infringe upon the rights of others or be infringed upon by others. In such a case, others may assert infringement claims against us, and should we be found to infringe upon their patents, or otherwise impermissibly utilize their intellectual property, we might be forced to pay damages, potentially including treble damages, if we are found to have willfully infringed on such parties' patent rights. In addition to any damages we might have to pay, we may be required to obtain licenses from the holders of this intellectual property, enter into royalty agreements, or redesign our drug candidates so as not to utilize this intellectual property, each of which may prove to be uneconomical or otherwise impossible. Conversely, we may not always be able to successfully pursue our claims against others that infringe upon our technology and the technology exclusively licensed from the TheraCour Pharma Inc. Thus, the proprietary nature of our technology or technology licensed by us may not provide adequate protection against competitors.

Moreover, the cost to us of any litigation or other proceeding relating to our patents and other intellectual property rights, even if resolved in our favor, could be substantial, and the litigation would divert our management's efforts. Uncertainties resulting from the initiation and continuation of any litigation could limit our ability to continue our operations.

Other companies or organizations may assert patent rights that prevent us from developing and commercializing our drug candidates.

We are in a relatively new scientific field that has generated many different patent applications from organizations and individuals seeking to obtain important patents in the field. Because the field is so new, very few of these patent applications have been fully processed by government patent offices around the world, and there is a great deal of uncertainty about which patents will issue, when, to whom, and with what claims. It is likely that there will be significant litigation and other proceedings, such as interference proceedings in various patent offices, relating to patent rights in the field. Others may attempt to invalidate our patents or other intellectual property rights. Even if our rights are not directly challenged, disputes among third parties could lead to the weakening or invalidation of those intellectual property rights.

Thus, it is possible that one or more organizations will hold patent rights to which we will need a license. Any license required under any patent may not be made available on commercially acceptable terms, if at all. In addition, such licenses are likely to be non-exclusive and, therefore, our competitors may have access to the same technology licensed to us. If we fail to obtain a required license and are unable to design around a patent, we may be unable to effectively market some of our technology and drug candidates, which could limit our ability to generate revenues or achieve profitability and possibly prevent us from generating revenue sufficient to sustain our operations.

We are dependent upon TheraCour Pharma Inc. for the rights to develop the products we intend to sell.

Our ability to develop, manufacture and sell the products the Company plans to develop is derived from our Licensing Agreements with TheraCour Pharma Inc. ("TheraCour"). While we hold the licenses in perpetuity, the Agreements may be terminated by TheraCour as a result of: the insolvency or bankruptcy proceedings by or against the Company, a general assignment by the Company to its creditors, the dissolution of the Company, cessation by the Company of business operations for ninety (90) days or more or the commencement by the Company or an affiliate to challenge or invalidate the issued patents.

The Company does not hold the rights to any other patents nor does the Company conduct its own research and development to develop other products to manufacture and sell. If the Company's Agreement with TheraCour is

terminated, it is unlikely we will be able to commence revenue-generating operations or that the Company could continue operating at all.

We lack suitable facilities for clinical testing; reliance on third parties.

The Company does not have facilities that could be used to conduct clinical testing. We expect to contract with third parties to conduct all clinical testing required to obtain approvals for any drugs that we might develop. We currently outsource all clinical testing to a number of third parties in various collaborations and service contracts. Any of our collaborators or service providers may discontinue the service contract or collaboration. We will then be required to modify our priorities and goals, obtain other collaborators or service providers to replace the ones we lose, or we may even be forced to abandon certain drug development programs. In addition, any failures by third parties to adequately perform their responsibilities may delay the submission of our proposed products for regulatory approval, impair our ability to deliver our products on a timely basis or otherwise impair our competitive position.

We have limited manufacturing experience.

The Company has never manufactured products in the highly regulated environment of pharmaceutical manufacturing. There are numerous regulations and requirements that must be maintained to obtain licensure and the permits required to commence manufacturing, as well as additional requirements to continue manufacturing pharmaceutical products. We now own facilities that could be used to manufacture clinical quantities of any products that might be developed by the Company. We believe that this cGMP-capable facility may allow us to produce limited quantities of a drug after approval for initial market entry, and that such an effort may make commercial sense if the treatment course requirements and afflicted patient populations are limited, and if the remuneration for the treatment course is appropriate. However, we do not own, nor lease facilities suitable for cGMP manufacture of any of our drug candidates in large commercial quantities, nor do we have the resources at this time to acquire or lease suitable facilities. At present, we have not retained any contract manufacturing organizations (CMO) for commercial manufacture or for clinical product manufacture.

We have no sales and marketing personnel.

We are an early stage development company with limited resources. We do not currently have any products available for sale, so have not secured sales and marketing staff at this early stage of operations. We cannot generate sales without a sales or marketing staff and must rely on officers to provide any sales or marketing services until such staff are secured, if ever. Even if we were to successfully develop approvable drugs, we will not be able to sell these drugs if we or our third-party manufacturers fail to comply with manufacturing regulations.

If we were to successfully develop approvable drugs, before we can begin selling these drugs, we must obtain regulatory approval of our manufacturing facility and process or the manufacturing facility and process of the third party or parties with whom we may outsource our manufacturing activities. In addition, the manufacture of our products must comply with the FDA's current Good Manufacturing Practices regulations, commonly known as GMP regulations. The GMP regulations govern quality control and documentation policies and procedures. Our manufacturing facilities, if any in the future and the manufacturing facilities of our third party manufacturers will be continually subject to inspection by the FDA and other state, local and foreign regulatory authorities, before and after product approval. We cannot guarantee that we, or any potential third party manufacturer of our products, will be able to comply with the GMP regulations or other applicable manufacturing regulations.

As of the date of this filing, we have approximately thirty employees including the employees of affiliates, and several consultants and independent contractors. The only consultant/contractor that we consider critical to the Company is TheraCour, discussed in the next risk factor. All other consultant/contractors would be more readily replaceable. We have recently significantly expanded our operations and staff materially and our new employees include a number of key managerial, technical, financial, R&D and operations personnel. The expansion of our business will continue to place a significant strain on our limited managerial, operational and financial resources. We have no experience in integrating multiple employees. Therefore, there is a substantial risk that we will not be able to integrate new employees into our operations which would have a material adverse effect on our business, prospects, financial condition and results of operations.

We license our core technology from TheraCour Pharma Inc. and we are dependent upon them as they have exclusive development rights. If we lose the right to utilize any of the proprietary information that is the subject of this license agreement, we may incur substantial delays and costs in development of our drug candidates

The Company has entered into Material License Agreements with TheraCourPharma, Inc. ("TheraCour") (an approximately 13.6% shareholder of the Company's common stock) as of June 30, 2018, whereby TheraCour has exclusive rights to develop exclusively for us, the materials that comprise the core drugs of our planned business. TheraCour is a development stage company with limited financial resources and needs the Company's progress payments to further the development of the nanoviricides. The Company controls the research and work TheraCour

performs on its behalf and no costs may be incurred without the prior authorization or approval of the Company. No royalties are due to TheraCour from the Company's inception through June 30, 2018.

We depend on TheraCour and other third parties to perform manufacturing activities effectively and on a timely basis. If these third parties fail to perform as required, this could impair our ability to deliver our products on a timely basis or cause delays in our clinical trials and applications for regulatory approval, and these events could harm our competitive position and adversely affect our ability to commence revenue-generating operations. The manufacturing process for pharmaceutical products is highly regulated, and regulators may shut down manufacturing facilities that they believe do not comply with regulations. We, and our manufacturers are subject to the FDA's current Good Manufacturing Practices, which are extensive regulations governing manufacturing processes, stability testing, record keeping and quality standards and similar regulations are in effect in other countries. In addition, our manufacturing operations are subject to routine inspections by regulatory agencies.

Our collaborative relationships with third parties could cause us to expend significant resources and incur substantial business risk with no assurance of financial return.

We anticipate substantial reliance upon strategic collaborations for marketing and the commercialization of our drug candidates and we may rely even more on strategic collaborations for R&D of our other drug candidates. Our business depends on our ability to sell drugs to both government agencies and to the general pharmaceutical market. Offering our drug candidates for non-medical applications to government agencies does not require us to develop new sales, marketing or distribution capabilities beyond those already existing in the company. Selling antiviral drugs, however, does require such development. We plan to sell antiviral drugs through strategic partnerships with pharmaceutical companies. If we are unable to establish or manage such strategic collaborations on terms favorable to us in the future, our revenue and drug development may be limited. To date, we have not entered into any strategic collaboration with third parties capable of providing these services. In addition, we have not yet marketed or sold any of our drug candidates or entered into successful collaborations for these services in order to ultimately commercialize our drug candidates.

If we determine to enter into R&D collaborations during the early phases of drug development, our success will in part depend on the performance of our research collaborators. We will not directly control the amount or timing of resources devoted by our research collaborators to activities related to our drug candidates. Our research collaborators may not commit sufficient resources to our programs. If any research collaborator fails to commit sufficient resources, our preclinical or clinical development programs related to this collaboration could be delayed or terminated. Also, our collaborators may pursue existing or other development-stage products or alternative technologies in preference to those being developed in collaboration with us. Finally, if we fail to make required milestone or royalty payments to our collaborators or to observe other obligations in our agreements with them, our collaborators may have the right to terminate those agreements.

Manufacturers producing our drug candidates must follow current GMP regulations enforced by the FDA and foreign equivalents. If a manufacturer of our drug candidates does not conform to the current GMP regulations and cannot be brought up to such a standard, we will be required to find alternative manufacturers that do conform. This may be a long and difficult process, and may delay our ability to receive FDA or foreign regulatory approval of our drug candidates and cause us to fall behind on our business objectives.

Establishing strategic collaborations is difficult and time-consuming. Our discussion with potential collaborators may not lead to the establishment of collaborations on favorable terms, if at all. Potential collaborators may reject collaborations based upon their assessment of our financial, regulatory or intellectual property position. Even if we successfully establish new collaborations, these relationships may never result in the successful development or commercialization of our drug candidates or the generation of sales revenue. To the extent that we enter into collaborative arrangements, our drug revenues are likely to be lower than if we directly marketed and sold any drugs that we may develop.

Management of our relationships with our collaborators will require:

- significant time and effort from our management team;
- coordination of our marketing and R&D programs with the marketing and R&D priorities of our collaborators; and
- effective allocation of our resources to multiple projects.

We employ the use of certain chemical and biological agents and compounds that may be deemed hazardous and we are therefore subject to various environmental laws and regulations. Compliance with these laws and regulations may result in significant costs, which could materially reduce our ability to become profitable.

We use hazardous materials, including chemicals and biological agents and compounds that could be dangerous to human health and safety or the environment. As appropriate, we safely store these materials and wastes resulting from their use at our laboratory facility pending their ultimate use or disposal. We contract with a third party to properly dispose of these materials and wastes. We are subject to a variety of federal, state and local laws and regulations governing the use, generation, manufacture, storage, handling and disposal of these materials and wastes. We may incur significant costs complying with environmental laws and regulations adopted in the future.

If we use biological and hazardous materials in a manner that causes injury, we may be liable for damages.

Our R&D and manufacturing activities will involve the use of biological and hazardous materials. Although we believe our safety procedures for handling and disposing of these materials comply with federal, state and local laws and regulations, we cannot entirely eliminate the risk of accidental injury or contamination from the use, storage, handling or disposal of these materials. We carry \$8,000,000 casualty and general liability insurance policies. Accordingly, in the event of contamination or injury, we could be held liable for damages or penalized with fines in an amount exceeding our resources and insurance coverage, and our clinical trials or regulatory approvals could be suspended.

We may not be able to attract and retain highly skilled personnel.

Our ability to attract and retain highly skilled personnel is critical to our operations and expansion. We face competition for these types of personnel from other pharmaceutical companies and more established organizations, many of which have significantly larger operations and greater financial, technical, human and other resources than us. We may not be successful in attracting and retaining qualified personnel on a timely basis, on competitive terms, or at all. If we are not successful in attracting and retaining these personnel, our business, prospects, financial condition and results of operations will be materially and adversely affected.

We depend upon our senior management and their loss or unavailability could put us at a competitive disadvantage.

We currently depend upon the efforts and abilities of our management team. The loss or unavailability of the services of any of these individuals for any significant period of time could have a material adverse effect on our business, prospects, financial condition and results of operations. We have not obtained, do not own, nor are we the beneficiary of key-person life insurance for all of our key personnel.

The Company believes that its two current executive officers, Irach Taraporewala, Chief Executive Officer, and Anil Diwan, President, are critical to the success of the Company. The Company is a limited beneficiary of a certain amount of key man insurance for Anil Diwan that the Company maintains. However there can be no assurances that the amount of the key man insurance coverage would be sufficient to provide replacement of these key officers for continuing the Company's operations in a timely manner, should such an event arise.

The Company also maintains a limited amount of Directors and Officers Liability insurance coverage to protect all of its directors and executive officers taken together. There can be no assurance that this D&O coverage will be sufficient to cover the costs of the events that may lead to its invocation, in which case, there could be a substantial impact on the Company's ability to continue operations, should such an unforeseen event occur.

There are conflicts of interest among our officers, directors and stockholders.

The Company has a majority independent Board of Directors, a fully independent Compensation Committee, and a fully independent Audit Committee.

Certain of our executive officers and directors and their affiliates are engaged in other activities and have interests in other entities on their own behalf or on behalf of other persons. Neither we, nor our stockholders will have any rights in these ventures or their income or profits. Specifically, Anil Diwan owns approximately 90% of the capital stock of TheraCour Pharma, Inc., which as of June 30, 2018 owned 13.6% of our Common Stock, and 2,000,000 shares of the Company's Series A Preferred stock, and provides the nanomaterials to the Company with which it intends to develop its products and is the holder of the intellectual property rights the Company uses to conduct its operations. While the Company is not aware of any conflict that has arisen or any transaction that has not been conducted on an arm's length basis to date, Dr. Diwan may have conflicting fiduciary duties between the Company and TheraCour Pharma, Inc., for which he must recuse himself from certain decision-making processes of the Company.

In addition, a former independent director, Dr. Milton Boniuk has dispositive power over 10,601,258 shares of common stock, and 337,000 shares of Series A preferred stock as of December 31, 2018.

The Company does not allow a conflicted Shareholder, Director, or Executive Officer to vote on matters wherein a conflict may be perceived. The conflicted entity is not allowed to nominate an alternate person to vote for them either. Other than this safeguard, the Company currently does not have any policy in place, should such a conflict arise.

In particular:

• Our executive officers or directors or their affiliates may have an economic interest in, or other business relationship with, partner companies that invest in us.

• Our executive officers or directors or their affiliates have interests in entities that provide products or services to us.

In any of these cases:

• Our executive officers or directors may have a conflict between our current interests and their personal financial and other interests in another business venture.

• Our executive officers or directors may have conflicting fiduciary duties to us and the other entity.

• The terms of transactions with the other entity may not be subject to arm's length negotiations and therefore may be on terms less favorable to us than those that could be procured through arm's length negotiations.

We anticipate entering into contracts with various U.S. government agencies. In contracting with government agencies, we will be subject to various federal contract requirements. Future sales to U.S. government agencies will depend, in part, on our ability to meet these requirements, certain of which we may not be able to satisfy.

We may enter into contracts with various U.S. government agencies which have special contracting requirements that give the government agency various rights or impose on the other party various obligations that can make the contracts less favorable to the non- government party. Consequently, if a large portion of our revenue is attributable to these contracts, our business may be adversely affected should the governmental parties exercise any of these additional rights or impose any of these additional obligations.

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U.S. government contracts typically contain unfavorable termination provisions and are subject to audit and modification by the government at its sole discretion, which subjects us to additional risks. These risks include the ability of the U.S. government to unilaterally:

- suspend or prevent us for a set period of time from receiving new contracts or extending existing contracts based on violations or suspected violations of laws or regulations;
- terminate our existing contracts;
- reduce the scope and value of our existing contracts;
- audit and object to our contract-related costs and fees, including allocated indirect costs;
- control and potentially prohibit the export of our drug candidates; and
- change certain terms and conditions in our contracts.

The U.S. government may terminate any of its contracts with us either for its convenience or if we default by failing to perform in accordance with the contract schedule and terms. Termination for convenience provisions generally enable us to recover only our costs incurred or committed, and settlement expenses and profit on the work completed prior to termination. Termination for default provisions do not permit these recoveries and make us liable for excess costs incurred by the U.S. government in procuring undelivered items from another source.

As a U.S. government contractor, we may become subject to periodic audits and reviews. Based on the results of these audits, the U.S. government may adjust our contract-related costs and fees, including allocated indirect costs. As part of any such audit or review, the U.S. government may review the adequacy of, and our compliance with, our internal control systems and policies, including those relating to our purchasing, property, compensation and/or management information systems. In addition, if an audit or review uncovers any improper or illegal activity, we may be subject to civil and criminal penalties and administrative sanctions, including termination of our contracts, forfeiture of profits, suspension of payments, fines and suspension or prohibition from doing business with the U.S. government. We could also suffer serious harm to our reputation if allegations of impropriety were made against us. In addition, under U.S. government purchasing regulations, some of our costs, including most financing costs, amortization of intangible assets, portions of our R&D costs and some marketing expenses, may not be reimbursable or allowed under our contracts. Further, as a U.S. government contractor, we may become subject to an increased risk of investigations, criminal prosecution, civil fraud, whistleblower lawsuits and other legal actions and liabilities to which purely private sector companies are not.

We may fail to obtain contracts to supply the U.S. government, and we may be unable to commercialize our drug candidates.

The U.S. government has undertaken commitments to help secure improved countermeasures against bio-terrorism. The process of obtaining government contracts is lengthy and uncertain, and we would compete for each contract. Moreover, the award of one government contract would not necessarily secure the award of future contracts covering

the same drug. If the U.S. government makes significant future contract awards for the supply of its emergency stockpile to our competitors, our business will be harmed and it is unlikely that we will be able to ultimately commercialize our competitive drug candidate.

In addition, the determination of when and whether a drug is ready for large scale purchase and potential use will be made by the government through consultation with a number of government agencies, including the FDA, the NIH, the CDC and the Department of Homeland Security. Congress has approved measures to accelerate the development of bio-defense drugs through NIH funding, the review process by the FDA and the final government procurement contracting authority. While this may help speed the approval of our drug candidates, it may also encourage competitors to develop their own drug candidates.

The market for government stockpiling of H5N1 medicines and other antiviral drugs in the Strategic National Stockpile is fairly new and uncertain.

At the present many governments have already stockpiled influenza medicines for H5N1. We cannot predict with certainty the size of the market, if any for all of the antiviral drugs that the governments may want to stockpile. Consequently, we cannot predict whether sales, if any, to governments will be sufficient to fund our business plan and commence revenue-generating operations.

If the U.S. government fails to continue funding bio-defense drug candidate development efforts or fails to purchase sufficient quantities of any future bio-defense drug candidate, we may be unable to generate sufficient revenues to continue operations.

We hope to receive funding from the U.S. government for the development of our bio-defense drug candidates. Changes in government budgets and agendas, however, may result in future funding being decreased and de-prioritized, and government contracts typically contain provisions that permit cancellation in the event that funds are unavailable to the government agency. Furthermore, we cannot be certain of the timing of any future funding, and substantial delays or cancellations of funding could result from protests or challenges from third parties. If the U.S. government fails to continue to adequately fund R&D programs, we may be unable to generate sufficient revenues to continue operations. Similarly, if we develop a drug candidate that is approved by the FDA, but the U.S. government does not place sufficient orders for this drug, our future business may be harmed.

Risks Related to the Biotechnology/Biopharmaceutical Industry

The biotechnology and biopharmaceutical industries are characterized by rapid technological developments and a high degree of competition. We may be unable to compete with enterprises equipped with more substantial resources than us.

The biotechnology and biopharmaceutical industries are characterized by rapid technological developments and a high degree of competition based primarily on scientific and technological factors. These factors include the availability of patent and other protection for technology and products, the ability to commercialize technological developments and the ability to obtain government approval for testing, manufacturing and marketing.

Any shingles drug candidate would compete with Shingrix™, an approved vaccine, Valtrex® an approved drug (valacyclovir), and other acyclovir-related nucleoside analogs, and new drugs in the pipeline. The approved drugs are known to have very limited benefit. FV-100, a VZV-specific nucleoside analog was in Phase III clinical trials that were terminated. Development of ASP2151, a helicase/primase inhibitor, was terminated due to adverse events in healthy persons in clinical trials. We are not aware of any further drugs in clinical trials for the treatment of shingles. Painkillers such as lidocaine formulations and oxycodone formulations were in clinical trials for symptomatic relief of PHN.

Our HSV-1 and HSV-2 skin cream drug candidates would compete with branded and unbranded available skin creams, such as Abreva™, as well as with branded and unbranded oral drug candidates against herpes, such as those based on acyclovir, valacyclovir, gancyclovir, among others. All of these drugs are known to have limited benefits. It is not known until after human clinical trials whether our drug candidates provide patient benefits beyond those of these drugs. Other drugs against herpes that are in the pipeline, if approved prior to our drug approval, would also be competition. Several drugs are in clinical trials for HSV-1 and/or HSV-2 treatment. These include brincidofovir, cyclopropavir, valamocyclovir, pritelivir, letermovir, as well as antibodies. Their patient benefit profiles are not known at present.

Our anti-influenza drug in development, Flucide, would compete with neuraminidase inhibitors Tamiflu and Relenza, anti-influenza drugs that are sold by Roche and Glaxo SmithKline (GSK), respectively. Generic competitors include amantadine and rimantadine, both oral. BioCryst Pharmaceuticals, Inc. has achieved US FDA approval for IV Infusions formulations of peramivir, an influenza neuraminidase inhibitor, for the treatment of uncomplicated influenza. Peramivir is approved in Japan and had obtained emergency use authorization in the US. Its effectiveness during multiple clinical trials was found to be severely limited. Recently, a new drug, Xofluza (Baloxavir marboxil), developed by Shionogi, Inc., has been approved in Japan, and licensed in the US and the rest of the world by Genetech/Roche. It is in fast track Phase 3 clinical trials under the US FDA. It is an influenza viral endonuclease PA inhibitor. Other drugs in this class are in clinical trials. So are drugs targeting the m7G cap-snatching activity (PB2) of

influenza virus such as VX787, and antibodies. Several H5N1 bird flu, and influenza novelH1N1/2009 vaccines are also in development worldwide. Several companies are developing anti-influenza drugs and vaccines.

We have recently completed preliminary animal studies against HIV that have resulted in the finding that certain of our drug candidates were superior to the oral HAART cocktail in SCID-hu Thy/Liv humanized mice lethally infected with HIV-I. We thus believe that we have a very strong lead drug identified against HIV. There are several companies with anti-HIV drugs in the market. A new drug, Maraviroc from Pfizer has recently been approved, which falls in a new class called CCR5-blockers. Prior to this, two new drugs in a new class called Integrase Inhibitors have been approved. A drug in the class called Entry & Fusion Inhibitors, enfuvirtide, (Fuzeon™, Roche) has also been available. Additionally, the classical drugs, NRTI's, NNRTI's and PI's (protease inhibitors) are used in various combinations. A three-drug combo has been approved. A four-drug combo is expected to be approved soon. The HIVCide-I nanoviricide is expected to act by a very different kind of mechanism, defining a new class of drugs, that is complementary to the existing classes of anti-HIV drugs.

Our nanoviricide eye drops for viral diseases of the eye are currently under development. We have shown significant clinical efficacy in an animal model of EKC (adenoviral epidemic keratoconjunctivitis). We have also shown very strong in vitro efficacy in HSV-1 reduction in cell cultures. We believe that this drug has a very good efficacy and safety profile, based on current data. There are no approved drugs against all viral diseases of the eye, or adenoviral EKC in particular. Several drugs are available for the treatment of herpes keratitis. Idoxuridine, vidarabine, acyclovir and its derivatives, are among the leading ones. Aganocide is under development, but did not meet its desired end points in a clinical trial recently. We believe that the nanoviricide eye drops should have a significant advantage in terms of reduced frequency of application needed and simple application procedure.

We compete with specialized biopharmaceutical firms in the United States, Europe and elsewhere, as well as a growing number of large pharmaceutical companies that are applying biotechnology to their operations. Many biopharmaceutical companies have focused their development efforts in the human therapeutics area, including cancer. Many major pharmaceutical companies have developed or acquired internal biotechnology capabilities or made commercial arrangements with other biopharmaceutical companies. These companies, as well as academic institutions, government agencies and private research organizations, also compete with us in recruiting and retaining highly qualified scientific personnel and consultants. Our ability to compete successfully with other companies in the pharmaceutical field will also depend to a considerable degree on the continuing availability of capital to us.

We are aware of numerous products under development or manufactured by competitors that are used for the prevention or treatment of certain diseases we have targeted for drug development. Various companies are developing biopharmaceutical products that potentially directly compete with our drug candidates even though their approach to such treatment is different.

We expect that our drug candidates under development and in clinical trials will address major markets within the anti-viral sector. Our competition will be determined in part by the potential indications for which drugs are developed and ultimately approved by regulatory authorities. Additionally, the timing of the market introduction of some of our potential drugs or of competitors' products may be an important competitive factor. Accordingly, the relative speed with which we can develop drugs, complete pre-clinical testing, clinical trials, approval processes and supply commercial quantities to market are important competitive factors. We expect that competition among drugs approved for sale will be based on various factors, including product efficacy, safety, reliability, availability, price and patent protection.

The successful development of biopharmaceuticals is highly uncertain. A variety of factors including, pre-clinical study results or regulatory approvals, could cause us to abandon development of our drug candidates.

Successful development of biopharmaceuticals is highly uncertain and is dependent on numerous factors, many of which are beyond our control. Products that appear promising in the early phases of development may fail to reach the market for several reasons including:

pre-clinical study results that may show the product to be less effective than desired (e.g., the study failed to meet its primary objectives) or to have harmful or problematic side effects; failure to receive the necessary regulatory approvals or a delay in receiving such approvals. Among other things, such delays may be caused by slow enrollment in clinical studies, length of time to achieve study endpoints, additional time requirements for data analysis or a IND and later NDA, preparation, discussions with the FDA, an FDA request for additional pre-clinical or clinical data or unexpected safety or manufacturing issues; manufacturing costs, pricing or reimbursement issues, or other factors that make the product not economical; and the proprietary rights of others and their competing products and technologies that may prevent the product from being commercialized.

Success in pre-clinical and early clinical studies does not ensure that large-scale clinical studies will be successful. Clinical results are frequently susceptible to varying interpretations that may delay, limit or prevent regulatory approvals. The length of time necessary to complete clinical studies and to submit an application for marketing approval for a final decision by a regulatory authority varies significantly from one product to the next, and may be difficult to predict.

Risks Related to the Securities Markets and Investments in Our Common Stock

If we do not meet the continued listing standards of the NYSE American our common stock could be delisted from trading, which could limit investors' ability to make transactions in our common stock and subject us to additional trading restrictions.

On September 25, 2013, our common stock became listed on the NYSE MKT (now known as "NYSE American"), a national securities exchange, which imposes continued listing requirements with respect to listed shares. If, however, we fail to satisfy the continued listing standards, such as, for example, the requirement that our shares not trade "for a substantial period of time at a low price per share" or that we not dispose of our principal operating assets or discontinue a substantial portion of our operations, among other requirements, the NYSE American may issue an non-compliance letter or initiate delisting proceedings. If our securities are delisted from trading on the NYSE American and we are not able to list our securities on another exchange or to have them quoted on NASDAQ, our securities could be quoted on the OTC Bulletin Board or on the "pink sheets." As a result, we could face significant adverse consequences including:

- a limited availability of market quotations for our securities;
- a determination that our common stock is a "penny stock" which will require brokers trading in our common stock to adhere to more stringent rules and possibly result in a reduced level of trading activity in the secondary trading market for our securities;
- a limited amount of news and analyst coverage for us; and
- a decreased ability to issue additional securities (including pursuant to short-form registration statements on Form S-3 or obtain additional financing in the future).

Our Company is subject to the periodic reporting requirements of the Securities Exchange Act of 1934 (the “Exchange Act”), which will require us to incur audit fees and legal fees in connection with the preparation of such reports. These additional costs will reduce or might eliminate our profitability.

Our Company is required to file periodic reports with the Commission pursuant to the Exchange Act and the rules and regulations promulgated thereunder. To comply with these requirements, our independent registered auditors will have to review our quarterly financial statements and audit our annual financial statements. Moreover, our legal counsel will have to review and assist in the preparation of such reports. The costs charged by these professionals for such services cannot be accurately predicted at this time, because factors such as the number and type of transactions that we engage in and the complexity of our reports cannot be determined at this time and will have a major effect on the amount of time to be spent by our auditors and attorneys. However, the incurrence of such costs will obviously be an expense to our operations and thus have a negative effect on our ability to meet our overhead requirements and earn a profit. We may be exposed to potential risks resulting from new requirements under Section 404 of the Sarbanes-Oxley Act of 2002. If we cannot provide reliable financial reports or prevent fraud, our business and operating results could be harmed, investors could lose confidence in our reported financial information, the trading price of our Common Stock, if a market ever develops, could drop significantly, or we could become subject to Commission enforcement proceedings.

Our Common Stock may be considered a “penny stock” and may be difficult to sell.

The Commission has adopted regulations which generally define “penny stock” to be an equity security that has a market price of less than \$5.00 per share or an exercise price of less than \$5.00 per share, subject to specific exemptions. Historically, the price of our Common Stock has fluctuated greatly. If, the market price of the Common Stock is less than \$5.00 per share it therefore may be designated as a “penny stock” according to Commission rules. The “penny stock” rules impose additional sales practice requirements on broker-dealers who sell securities to persons other than established customers and accredited investors (generally those with assets in excess of \$1,000,000 or annual income exceeding \$200,000 or \$300,000 together with their spouse). For transactions covered by these rules, the broker-dealer must make a special suitability determination for the purchase of securities and have received the purchaser’s written consent to the transaction before the purchase. Additionally, for any transaction involving a penny stock, unless exempt, the broker-dealer must deliver, before the transaction, a disclosure schedule prescribed by the Commission relating to the penny stock market. The broker-dealer also must disclose the commissions payable to both the broker-dealer and the registered representative and current quotations for the securities. Finally, monthly statements must be sent disclosing recent price information on the limited market in penny stocks. These additional burdens imposed on broker-dealers may restrict the ability or decrease the willingness of broker-dealers to sell our common shares, and may result in decreased liquidity for our common shares and increased transaction costs for sales and purchases of our common shares as compared to other securities.

Our stock price may be volatile and your investment in our common stock could suffer a decline in value.

The price of our common stock, as quoted on the NYSE American may fluctuate significantly in response to a number of factors, many of which are beyond our control. These factors include but are not limited to:

- progress of our products through the regulatory process
- results of preclinical studies and clinical trials;
- announcements of technological innovations or new products by us or our competitors;
- government regulatory action affecting our products or our competitors' products in both the United States and foreign countries;
- developments or disputes concerning patent or proprietary rights;
- general market conditions for emerging growth and pharmaceutical companies;
- economic conditions in the United States or abroad;
- actual or anticipated fluctuations in our operating results;
- broad market fluctuations; and
- changes in financial estimates by securities analysts.

There is a risk of market fraud.

Shareholders should be aware that, according to SEC Release No. 34-29093, the market for penny stocks has suffered in recent years from patterns of fraud and abuse. Such patterns include (1) control of the market for the security by one or a few broker-dealers that are often related to the promoter or issuer; (2) manipulation of prices through prearranged matching of purchases and sales and false and misleading press releases; (3) boiler room practices involving high-pressure sales tactics and unrealistic price projections by inexperienced sales persons; (4) excessive and undisclosed bid-ask differential and markups by selling broker-dealers; and (5) the wholesale dumping of the same securities by promoters and broker-dealers after prices have been manipulated to a desired level, along with the resulting inevitable collapse of those prices and with consequent investor losses. We are aware of the abuses that have occurred historically in the penny stock market. Although we do not expect to be in a position to dictate the behavior of the market or of broker-dealers who participate in the market, management will strive within the confines of practical limitations to prevent the described patterns from being established with respect to our securities. The occurrence of these patterns or practices could increase the volatility of our share price.

As of September 25, 2013, our common stock was listed on the NYSE American national exchange. However, shareholders should be aware that the occurrence of the above-mentioned patterns and practices cannot be entirely precluded and that the occurrence of these patterns or practices could increase the volatility of our share price.

A registration of a significant amount of our outstanding restricted stock may have a negative effect on the trading price of our stock.

At December 31, 2018, shareholders of the Company held approximately 21,000,399 shares (as adjusted) of restricted stock, or approximately 30.4% of the outstanding common stock. If we were to file a registration statement including all of these shares, and the registration is allowed by the SEC, these shares would be freely tradable upon the effectiveness of the planned registration statement. If investors holding a significant number of freely tradable shares decide to sell them in a short period of time following the effectiveness of a registration statement, such sales could contribute to significant downward pressure on the price of our stock.

We do not intend to pay any cash dividends in the foreseeable future and, therefore, any return on your investment in our capital stock must come from increases in the fair market value and trading price of the capital stock.

We have not paid any cash dividends on our common stock and do not intend to pay cash dividends on our common stock in the foreseeable future. We intend to retain future earnings, if any, for reinvestment in the development and expansion of our business. Any credit agreements, which we may enter into with institutional lenders, may restrict our ability to pay dividends. Whether we pay cash dividends in the future will be at the discretion of our board of directors and will be dependent upon our financial condition, results of operations, capital requirements and any other factors that the board of directors decides is relevant. Therefore, any return on your investment in our capital stock must come from increases in the fair market value and trading price of the capital stock.

We may issue additional equity shares to fund the Company's operational requirements, which would dilute share ownership.

The Company's continued viability depends on its ability to raise capital. Changes in economic, regulatory or competitive conditions may lead to cost increases. Management may also determine that it is in the best interest of the Company to develop new services or products. In any such case additional financing is required for the Company to meet its operational requirements. There can be no assurances that the Company will be able to obtain such financing on terms acceptable to the Company and at times required by the Company, if at all. In such event, the Company may be required to materially alter its business plan or curtail all or a part of its operational plans as detailed further in Management's Discussion and Analysis in its most recent Form 10-K. While the Company currently has no offers to

sell its securities to obtain financing, sale or the proposed sale of substantial amounts of our common stock in the public markets may adversely affect the market price of our common stock and our stock price may decline substantially.

The Company is authorized to issue up to 150,000,000 shares of Common Stock without additional approval by shareholders. As of December 31, 2018, we had 69,501,000 shares of common stock outstanding, 6,067,625 warrants exercisable to 6,969,588 shares of common stock and 4,531,394 shares of Series A Preferred Stock convertible into 15,859,879 shares of Common Stock only in the event of a change in control.

Since September 25, 2013, our common stock has been listed on the NYSE American national exchange.

Large amounts of our common stock will be eligible for resale under Rule 144.

As of December 31, 2018, 20,997,362 of 69,501,000 issued and outstanding shares of the Company's common stock were restricted securities as defined under Rule 144 of the Securities Act of 1933, as amended (the "Act") and under certain circumstances may be resold without registration pursuant to Rule 144. In addition the 4,531,394 shares of Series A Preferred Stock are restricted and convertible into 15,859,879 shares of Common Stock only in the event of a Change of Control of the Company.

Approximately 2,854,614 shares of our restricted shares of common stock (as adjusted) are held by non-affiliates who may avail themselves of the public information requirements and sell their shares in accordance with Rule 144. As a result, some or all of these shares may be sold in accordance with Rule 144 potentially causing the price of the Company's shares to decline.

In general, under Rule 144, a person (or persons whose shares are aggregated) who has satisfied a six month holding period may, under certain circumstances, sell within any three-month period a number of securities which does not exceed the greater of 1% of the then outstanding shares of common stock or the average weekly trading volume of the class during the four calendar weeks prior to such sale. Rule 144 also permits, under certain circumstances, the sale of securities, without any limitation, by a person who is not an Affiliate, as such term is defined in Rule 144(a)(1), of the Company and who has satisfied a one-year holding period. Any substantial sale of the Company's common stock pursuant to Rule 144 may have an adverse effect on the market price of the Company's shares. This filing will satisfy certain public information requirements necessary for such shares to be sold under Rule 144.

The requirements of complying with the Sarbanes-Oxley act may strain our resources and distract management.

We are subject to the reporting requirements of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and the Sarbanes-Oxley Act of 2002. The costs associated with these requirements may place a strain on our systems and resources. The Exchange Act requires that we file annual, quarterly and current reports with respect to our business and financial condition. The Sarbanes-Oxley Act requires that we maintain effective disclosure controls and procedures and internal controls over financial reporting. Historically, we have maintained a small accounting staff, but in order to maintain and improve the effectiveness of our disclosure controls and procedures and internal control over financial reporting, significant additional resources and management oversight will be required. This includes, among other things, activities necessary for supporting our independent public auditors. This effort may divert management’s attention from other business concerns, which could have a material adverse effect on our business, financial condition, results of operations and cash flows. In addition, we may need to hire additional accounting and financial persons with appropriate public company experience and technical accounting knowledge, and we cannot assure you that we will be able to do so in a timely fashion.

Sales of additional equity securities may adversely affect the market price of our common stock and your rights in the Company may be reduced.

We expect to continue to incur drug development and selling, general and administrative costs, and in order to satisfy our funding requirements, we may need to sell additional equity securities. Our stockholders may experience substantial dilution and a reduction in the price that they are able to obtain upon sale of their shares. Also, any new securities issued may have greater rights, preferences or privileges than our existing common stock that may adversely affect the market price of our common stock and our stock price may decline substantially.

DILUTION

If you invest in common stock, you will experience dilution to the extent of the difference between the price per share you pay in this offering and the net tangible book value per share of our common stock immediately after this offering. Our net tangible book value as of December 31, 2018 was approximately \$13.5 million, or \$0.19 per share of our common stock. Net tangible book value per share as of December 31, 2018 is equal to our total tangible assets minus total liabilities, all divided by the number of shares of common stock outstanding as of December 31, 2018.

After giving effect to the sale of 6,944,446 shares of our common stock in this offering at the offering price of \$0.36 per share, and after deducting the placement agent fees and the estimated offering expenses payable by us, our adjusted net tangible book value would have been approximately \$15.8 million, or approximately \$0.21 per share of

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common stock, as of December 31, 2018. This represents an immediate increase in the net tangible book value of approximately \$0.02 per share to our existing stockholders, and an immediate dilution of approximately \$0.15 per share to investors in this offering. The following table illustrates this calculation on a per share basis.

Offering price per share	\$0.36
Net tangible book value per share as of December 31, 2018	\$0.19
Increase in net tangible book value per share attributable to this offering	\$0.02
As adjusted net tangible book value per share as of December 31, 2018 after giving effect to this offering	\$0.21
Dilution per share to investors purchasing shares in this offering	\$0.15

The number of shares of our common stock shown above outstanding immediately before and after this offering is based on 69,501,354 shares outstanding as of December 31, 2018, and excludes, as of such date:

100,000 shares of our common stock subject to outstanding options having a weighted average exercise price of \$0.60 per share and restricted stock awards;

17,531,391 shares of our common stock reserved for issuance pursuant to the conversion of 5,071,826 shares of preferred stock; and

4,123,471 shares of our common stock reserved for issuance upon exercise of outstanding warrants having a weighted average exercise price of \$4.48 per share of which 3,127,668 expired January 24, 2019 with a weighted average exercise price of 3.014.

The above illustration of dilution per share to investors participating in this offering assumes no conversion of outstanding shares of preferred stock and no exercise of outstanding options or outstanding warrants to purchase shares of our common stock. The conversion of outstanding shares of preferred stock or exercise of outstanding options or warrants having a conversion price per share or exercise price per share that is less than the offering price per share will increase dilution to investors in this offering.

DIVIDEND POLICY

We have never declared or paid any cash dividends on our common stock and do not currently anticipate paying cash dividends in the foreseeable future.

USE OF PROCEEDS

The gross proceeds from the sale of our Units will be \$2,500,000 at the Closing, of which the Company expects the net proceeds to be approximately \$2,300,000. We intend to use the net proceeds for working capital and general corporate purposes, which may include, without limitation, engaging in acquisitions or other business combinations. We do not have any specific plans for acquisitions or other business combinations at this time. Our management will retain broad discretion in the allocation of the net proceeds from this offering.

PRIVATE PLACEMENT TRANSACTION

In a concurrent private placement (the "Private Placement Transaction"), we are selling to purchasers of our securities in this offering warrants (the "Warrants") to purchase an aggregate of 6,944,446 shares of our Common Stock. We will receive gross proceeds from the concurrent private placement transaction solely to the extent such Warrants are exercised for cash.

The Warrants and the shares of our common stock issuable upon the exercise of the Warrants are not being registered under the Securities Act, are not being offered pursuant to this prospectus supplement and the accompanying prospectus and are being offered pursuant to the exemption provided in Section 4(a)(2) under the Securities Act and Rule 506(b) promulgated thereunder. Accordingly, purchasers may only sell shares of common stock issued upon exercise of the Warrants pursuant to an effective registration statement under the Securities Act covering the resale of those shares, an exemption under Rule 144 under the Securities Act or another applicable exemption under the Securities Act.

Each Warrant may only be exercised following six (6) months after the date of its issuance at an exercise price of \$0.61 per share, subject to adjustment, and will remain exercisable for five years thereafter. If a registration statement registering the issuance of the shares of common stock underlying the Warrants under the Securities Act is not then effective or available, the holder may exercise the Warrant through a cashless exercise, in whole or in part, in which case the holder would receive upon such exercise the net number of shares of Common Stock determined according to the formula set forth in the Warrants. No fractional shares of common stock will be issued in connection with the exercise of the Warrants. In lieu of fractional shares, we will either pay the holder an amount in cash equal to the fractional amount multiplied by the exercise price or round up to the next whole share. The exercise price is subject to appropriate adjustment in the event of certain stock dividends and distributions, stock splits, stock combinations, reclassifications or similar events affecting our common stock.

The Warrants provide for adjustment of the Exercise Price if the Company or any significant subsidiary thereof, as applicable, shall sell or grant any option to purchase, or sell or grant any right to reprice, or otherwise dispose of or issue (or announce any offer, sale, grant or any option to purchase or other disposition) any Common Stock or Common Stock equivalents, at an effective price per share that is less than the Exercise Price then in effect (such lower price, the "Base Share Price" and such issuances collectively, a "Dilutive Issuance"). In the event a Dilutive Issuance occurs, the Exercise Price shall be reduced and only reduced to equal the Base Share Price (subject to adjustment for reverse and forward stock splits, recapitalizations and similar transactions).

A holder will not have the right to exercise any portion of the Warrants if the holder (together with its affiliates) would beneficially own in excess of either 4.99% or 9.99% of the number of shares of our stock outstanding immediately after giving effect to the exercise, as such percentage ownership is determined in accordance with the terms of the Warrants. However, any holder may increase or decrease such percentage to any other percentage not in excess of 9.99%, provided that any increase in such percentage shall not be effective until 61 days after such notice to us. In the event of a fundamental transaction, as described in the Warrants and generally including any reorganization, recapitalization or reclassification of our Common Stock, the sale, transfer or other disposition of all or substantially all of our properties or assets, our consolidation or merger with or into another person, the holders of the Warrants will be entitled to receive upon exercise of the Warrants the kind and amount of securities, cash or other property that the holders would have received had they exercised the Warrants immediately prior to such fundamental transaction. In connection with a fundamental transaction the holder of the Warrants shall be entitled to the Black Scholes value of the Warrants, subject to certain exceptions.

Except as otherwise provided in the Warrants or by virtue of such holder's ownership of shares of our Common Stock, the holder of Warrants will not have the rights or privileges of a holder of our common stock, including any voting rights, until the holder exercises the Warrants.

DESCRIPTION OF SECURITIES

This prospectus supplement and the accompanying prospectus relate to the offering at the Closing of 6,944,446 shares of our Common Stock.

DESCRIPTION OF COMMON STOCK

General. We are authorized to issue 300,000,000 shares of common stock, \$.001 par value. As of February 28, 2019, there were approximately 69,501,000 shares of Common Stock issued and outstanding held by approximately 10,000 beneficial holders.

The terms and circumstances of our issuance of common stock under this prospectus supplement is described under the section of this Prospectus Supplement entitled "Securities Purchase Agreement" above.

Voting Rights. Each holder of common stock is entitled to one vote for each share held on all matters submitted to a vote of the stockholders.

Dividends. Subject to the rights of the holders of any preferred stock, the holders of common stock are entitled to receive ratably such dividends as may be declared by our board of directors out of funds legally available for dividends. We have not historically declared or paid cash dividends on our common stock.

Other Rights. In the event of a liquidation, dissolution or winding up of us, holders of our common stock are entitled to share ratably in all assets remaining after payment of liabilities and the liquidation preference, if any, of any then outstanding preferred stock. Holders of our common stock are not entitled to preemptive rights and have no subscription, redemption or conversion privileges. All outstanding shares of common stock are, and all shares of common stock issued by us under this prospectus supplement or that we may issue in an offering under the accompanying prospectus will be, fully paid and nonassessable. The rights, preferences and privileges of holders of

common stock are subject to, and may be adversely affected by, the rights of the holders of shares of any series of preferred stock which our board of directors has designated or may designate and that we are issuing under this prospectus supplement or that we may issue in one or more offerings under the accompanying prospectus or at other times in the future.

Transfer Agent and Registrar. The transfer agent and registrar for our common stock is Corporate Stock Transfer, Inc., 3200 Cherry Creek Drive South, Suite 430, Denver, Colorado 80209, (303) 282-4800.

Listing. Our common stock is traded on the NYSE American under the symbol “NNVC.” Any common stock we sell under this prospectus supplement or the accompanying prospectus, as it may be further supplemented, will be listed on the NYSE American.

PLAN OF DISTRIBUTION

We are offering 6,944,446 shares to selected investors. We have agreed to pay Chardan Capital Markets, LLC (“Chardan”), a sales fee equal to 5% of the purchase price of any shares sold to investors introduced to us by Chardan. In addition, we will reimburse Chardan legal fees in an amount of \$25,000. Chardan is not purchasing or selling any of the common shares offered through this prospectus supplement or the accompanying prospectus, nor are they required to arrange for the purchase or sale of any specific number or dollar amount of securities. We have agreed to indemnify Chardan against certain liabilities arising from any violation of any applicable statutes (which may include liabilities arising under the Securities Act), laws or regulations by us or as a result of our fraud, gross negligence, willful misconduct or breach of the respective placement agreement between us and Chardan. The following table shows the per share fee and total fee we expect to pay Chardan in connection with the sale of the common shares and warrants offered by this prospectus supplement.

Sales Fee	Per Share	Total
Shares offered hereby	\$0.018	\$125,000

The Placement Agent may be deemed to be an underwriter within the meaning of Section 2(a)(11) of the Securities Act of 1933, as amended (the “Securities Act”), and any fees or commissions received by it and any profit realized on the resale of the securities sold by it while acting as principal might be deemed to be underwriting discounts or commissions under the Securities Act. As underwriter, the placement agent would be required to comply with the requirements of the Securities Act and the Exchange Act, including, without limitation, Rule 415(a)(4) under the Securities Act and Rule 10b-5 and Regulation M under the Exchange Act.

These rules and regulations may limit the timing of purchases and sales of shares of common stock by the placement agent. Under these rules and regulations, the placement agent (i) may not engage in any stabilization activity in connection with our securities and (ii) may not bid for or purchase any of our securities or attempt to induce any person to purchase any of our securities, other than as permitted under the Exchange Act, until it has completed its participation in the distribution.

We have agreed to indemnify the placement agent against certain liabilities, including liabilities under the Securities Act of 1933, as amended, and liabilities arising from breaches and representations and warranties contained in the placement agent agreement. We have also agreed to contribute to payments the placement agent may be required to make in respect of such liabilities.

After deducting certain fees due to the placement agent and our estimated offering expenses, we expect the net proceeds from the closing to be approximately \$2,300,000.

LEGAL MATTERS

The validity of our securities issuable hereunder has been passed upon for NanoViricides, Inc. by Kane Kessler, P.C., New York, New York. Ellenoff Grossman & Schole, LLP, New York, New York is acting as counsel for Chardan Capital Markets, LLC in connection with various matters related to the securities offered hereby.

EXPERTS

The financial statements and the related financial statement schedule, incorporated in this prospectus supplement by reference from our Annual Report on Form 10-K for the fiscal years ended June 30, 2018 and 2017 have been audited by EisnerAmper, LLP an independent registered public accounting firm, as stated in their report dated October 12, 2018, which is incorporated herein by reference, and have been so incorporated in reliance upon the report of such

firm given upon their authority as experts in accounting and auditing.

WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and special reports, proxy statements and other information with the Commission. You may read and copy any documents that we have filed with the Commission at the Commission's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Please call the Commission at 1-800-SEC-0330 for further information on the public reference room. Our Securities and Exchange Commission filings are also available to the public at the Securities and Exchange Commission's website at <http://www.sec.gov>.

This prospectus supplement and accompanying prospectus are part of a registration statement (and amendments thereto) that we filed with the Commission. This prospectus supplement and any subsequent prospectus supplements do not contain all of the information in the registration statement as permitted by the rules and regulations of the Commission. You can obtain a copy of the registration statement from the Commission at the address listed above or from the Commission's web site listed above.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The Commission allows us to "incorporate by reference" some of the documents we file with it into this prospectus supplement and accompanying prospectus, which means:

- we can disclose important information to you by referring you to those documents;
- the information incorporated by reference is considered to be part of this prospectus supplement; and
- later information that we file with the Commission will automatically update and supersede this incorporated information.

We incorporate by reference the documents listed below, which were filed with the Commission under the Exchange Act:

- our Annual Report on Form 10-K for the fiscal year ended June 30, 2018, filed with the Commission on October 12, 2018;
- our Quarterly Reports on Form 10-Q for the fiscal quarters ended, December 31, 2018, September 30, 2018, and March 31, 2018 filed with the Commission on February 14, 2019, November 14, 2018 and May 21, 2018, respectively; and
- our Current Reports on Form 8-K filed on October 31, 2018, December 7, 2018, and February 1, 2019.

All documents filed under Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act (not including any information furnished under Item 2.02 or Item 7.01 of Form 8-K, which information is not incorporated by reference herein), after the date of this prospectus supplement and prior to the termination of this offering shall be deemed to be incorporated by reference in this prospectus supplement and to be part of this prospectus supplement from the date they are filed. In addition, all documents filed pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of the initial registration statement and prior to the effectiveness of the registration statement of which this prospectus supplement forms a part shall be deemed to be incorporated by reference in this prospectus supplement and to be part of this prospectus supplement from the date they are filed.

You should assume that the information appearing in this prospectus supplement is accurate as of the date of this prospectus supplement only. Our business, financial position and results of operations may have changed since that date.

We will provide without charge to each person, including any beneficial owner, to whom a prospectus supplement is delivered, upon written or oral request of that person, a copy of any and all of the information that has been incorporated by reference in this prospectus supplement (excluding exhibits unless specifically incorporated by reference into those documents). Please direct requests to us at the following address:

NANOIRICIDES, INC.

1 Controls Drive

Shelton, Connecticut 06484

Phone: (203) 937-6137

Email: info@nanoviricides.com

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The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and we are not soliciting offers to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED APRIL 18, 2017

PROSPECTUS

NANOIRICIDES, INC.

\$150,000,000

Common Stock

Preferred Stock

Debt Securities

Warrants

Units

This prospectus relates to common stock, preferred stock, debt securities, warrants, and units comprised of the foregoing that we may sell from time to time in one or more offerings up to a total public offering price of \$150,000,000 on terms to be determined at the time of sale. We will provide specific terms of these securities in supplements to this prospectus. You should read this prospectus and any supplement carefully before you invest. This prospectus may not be used to offer and sell securities unless accompanied by a prospectus supplement for those securities.

Our common stock trades on the NYSE MKT under the symbol "NNVC." On April 17, 2017 the last reported sale price of our common stock was \$1.13. We recommend that you obtain current market quotations for our common stock prior to making an investment decision.

These securities may be sold directly by us, through dealers or agents designated from time to time, to or through underwriters or through a combination of these methods. See “Plan of Distribution” in this prospectus. We may also describe the plan of distribution for any particular offering of these securities in any applicable prospectus supplement. If any agents, underwriters or dealers are involved in the sale of any securities in respect of which this prospectus is being delivered, we will disclose their names and the nature of our arrangements with them in a prospectus supplement. The net proceeds we expect to receive from any such sale will also be included in a prospectus supplement.

As of April 18, 2017, the aggregate market value of our outstanding common stock held by non-affiliates, or the public float, was \$57,211,329, which was calculated based on 50,629,495 shares of outstanding common stock held by non-affiliates at a price of \$1.13 per share, the closing price of our common stock on April 17, 2017. Pursuant to General Instruction I.B.6 of Form S-3, in no event will we sell securities in a public primary offering with a value exceeding more than one-third of our “Public Float” (the market value of our common stock held by our non-affiliates) in any 12-months period so long as our Public Float remains below \$75,000,000. We have not sold any of our common stock or securities convertible into common stock during the 12 calendar months prior to and including the date of this prospectus pursuant to Instruction I.B.6.

Investing in our securities involves significant risks. See “RISK FACTORS” on page 3 for information you should consider before buying these securities.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

This prospectus may not be used to sell securities unless accompanied by a prospectus supplement.

This prospectus is not an offer to sell any securities in any state where the offer is not permitted.

The date of this prospectus is April 18, 2017.

Prospective investors may rely only on the information contained in this prospectus. We have not authorized anyone to provide prospective investors with different or additional information. This prospectus is not an offer to sell nor is it seeking an offer to buy these securities in any jurisdiction where the offer or sale is not permitted. The information contained in this prospectus is correct only as of the date of this prospectus, regardless of the time of the delivery of this prospectus or any sale of these securities.

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IMPORTANT INFORMATION ABOUT THIS PROSPECTUS

This prospectus is part of a “shelf” registration statement we filed with the United States Securities and Exchange Commission, or the “SEC”. By using a shelf registration statement, we may sell any combination of the securities described in this prospectus from time to time in one or more offerings. We may use this prospectus to offer and sell up to a total of \$150,000,000 of our securities. This prospectus provides you only with a general description of the securities we may offer. Each time we sell securities, we will provide a supplement to this prospectus that contains specific information about the terms of the securities offered. The supplement may also add, update or change information contained in this prospectus. Before purchasing any securities, you should carefully read both this prospectus and any supplement, together with the additional information described under the heading “Incorporation of Certain Documents by Reference” found on page 15.

You should rely only on the information contained herein or incorporated by reference in this prospectus and the supplement. We have not authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We will not make an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus, as well as information we previously filed with the SEC and incorporated herein by reference, is accurate as of the date on the front cover of this prospectus only. Our business, financial condition, results of operations and prospects may have changed since that date.

We will not use this prospectus to offer and sell securities unless it is accompanied by a supplement that more fully describes the securities being offered and the terms of the offering.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING INFORMATION

We are making this statement pursuant to the safe harbor provisions for forward-looking statements described in the Private Securities Litigation Reform Act of 1995. These forward-looking statements are not historical facts but are the intent, belief, or current expectations of our business and industry. We make statements in this prospectus, including statements that are incorporated by reference, that are forward-looking. When used in this prospectus or in any other presentation, statements which are not historical in nature, including the words “anticipate,” “estimate,” “could,” “should,” “may,” “plan,” “seek,” “expect,” “believe,” “intend,” “target,” “project” and similar expressions are intended to identify forward-looking statements. They also include statements regarding:

- our future growth and profitability;
- our competitive strengths; and
- our business strategy and the trends we anticipate in the industries and economies in which we operate.

These forward-looking statements are based on our current expectations and are subject to a number of risks, uncertainties and assumptions. These statements are not guarantees of future performance and are subject to risks, uncertainties, and other factors, some of which are beyond our control, are difficult to predict, and could cause actual results to differ materially from those expressed or forecasted in the forward-looking statements. Important factors that could cause actual results to differ materially from those in forward-looking statements include:

- economic downturns, reduced capital expenditures, consolidation and technological and regulatory changes in our industry;
- the highly competitive nature of our industry;
- our ability to attract and retain qualified managers and skilled employees;
- the outcome of our plans for future operations and growth; and
- the other factors referenced in this prospectus, including, without limitation, under “Risk Factors.”

We believe these forward-looking statements are reasonable; however, you should not place undue reliance on any forward-looking statements, which are based on current expectations. Furthermore, forward-looking statements speak only as of the date they are made. If any of these risks or uncertainties materialize, or if any of our underlying assumptions are incorrect, our actual results may differ significantly from the results that we express in or imply by any of our forward-looking statements. These and other risks are detailed in this prospectus, in any supplements to this prospectus, in the documents that we incorporate by reference into this prospectus and in other documents that we file with the SEC. We do not undertake any obligation to publicly update or revise these forward-looking statements after the date of this prospectus to reflect future events or circumstances. We qualify any and all of our forward-looking statements by these cautionary factors.

ABOUT NANOIRICIDES, INC.

This summary highlights selected information and does not contain all the information that is important to you. You should carefully read this prospectus, any applicable prospectus supplement and the documents we have referred you to in “Incorporation of Certain Documents by Reference” on page 15 of this prospectus for information about us and our financial statements as well as “Where You Can Find More Information” on page 15.

Except where the context otherwise requires, the terms “we,” “us,” “our” or “Nanoviricides” refer to NanoViricides, Inc.

Our Business

We are a developmental stage nano-biopharmaceutical company engaged in the discovery, development and commercialization of anti-viral therapeutics. We have no customers, products or revenues to date, and may never achieve revenues or profitable operations. Our drugs are based on several patents, patent applications, provisional patent applications, and other proprietary intellectual property held by TheraCour Pharma, Inc., one of our principal shareholders, to which we have the licenses in perpetuity for the treatment of the following human viral diseases:

- Influenza, Asian Bird Flu, and H1N1 “Swine Flu” Viruses;
- Herpes Simplex Virus (HSV);
- Human Immunodeficiency Virus (HIV/AIDS);
- Adenoviral Conjunctivitis and Keratitis, and Ocular Indications of Herpes Simplex Types 1 & 2.
- Dengue Fever types I, II, III, & IV;
- Hepatitis B Virus (HBV);
- Hepatitis C Virus (HCV);
- Rabies;
- Ebola and Marburg Viruses;
- Japanese Encephalitis; and
- West Nile Virus.

We focus our laboratory research and pre-clinical programs on specific anti-viral solutions. We are seeking to add to our pipeline of drug candidates through our internal discovery pre-clinical development programs and through an in-licensing strategy.

Company Information

Our principal executive offices are located at 1 Controls Drive, Shelton, Connecticut 06484. Our telephone number is 203-937-6137. You may also contact us or obtain additional information through our internet website address at www.nanoviricides.com or by emailing us at info@nanoviricides.com. Information contained on our website is not incorporated into this prospectus and is not a part of this prospectus.

RISK FACTORS

You should carefully consider the Risk Factors contained in our most recent annual report on Form 10-K, as updated or supplemented by subsequent quarterly reports on Form 10-Q and current reports on Form 8-K to the extent filed, each of which are incorporated herein by reference and in the supplement to this prospectus before buying any offered securities, as the same may be updated from time to time by our future filings under the Exchange Act.

USE OF PROCEEDS

Unless the applicable prospectus supplement states otherwise, we expect to use the net proceeds of the sale of these securities for general corporate purposes, which may include research and development of pharmaceutical candidates, collaborative arrangements with other companies, repayment of existing indebtedness, working capital, capital expenditures, acquisitions, joint ventures and stock repurchase programs. As of the date of this prospectus, we have not identified as probable any specific material proposed uses of these proceeds. If, as of the date of any prospectus supplement, we have identified any such uses, then we will describe them in the prospectus supplement. The amount of securities offered from time to time pursuant to this prospectus and any prospectus supplement, and the precise amounts and timing of the application of net proceeds from the sale of those securities, will depend upon our funding requirements. If we elect at the time of an issuance of securities to make different or more specific use of proceeds than described in this prospectus, such use will be described in the prospectus supplement relating to those securities.

PLAN OF DISTRIBUTION

We may sell securities to one or more underwriters or dealers for public offering and sale by them, or we may sell the securities to investors directly or through one or more agents or broker dealers, including those engaged solely as agents to facilitate the direct sale of securities to particular investors. We may also sell the securities offered through this prospectus through agents, including ordinary brokerage transactions, block trades, placements, “at the market” transactions, put or call transactions or in any other way not involving market makers or established markets, or through any of these methods. The applicable prospectus supplement will set forth the terms of the offering and the method of distribution and will identify any firms acting as underwriters, dealers or agents in connection with the offering, including:

- the name or names of any underwriters;
- the purchase price of the securities;
- any underwriting discounts and other items constituting underwriters’ compensation;
- any public offering price and the net proceeds we will receive from such sale;
- any discounts or concessions allowed or reallocated or paid to dealers; and
- any securities exchange or market on which the securities offered in the prospectus supplement may be listed.

We may engage in at the market offering into an existing trading market in accordance with Rule 415(a)(4). Any at the market offering will be through an underwriter or underwriter acting as principal agent for us.

We may distribute our securities from time to time in one or more transactions at a fixed price or prices, which may be changed, or at prices determined as the prospectus supplement specifies, including at negotiated prices and in “at-the-market” offerings. We may sell our securities through a rights offering, forward contracts or similar arrangements.

Any underwriting discounts or other compensation which we pay to underwriters or agents in connection with the offering of our securities, and any discounts, concessions or commissions which underwriters allow to dealers, will be set forth in the prospectus supplement. Underwriters may sell our securities from time to time to or through dealers, and such dealers may receive compensation in the form of discounts, concessions or commissions from the underwriters and commissions from the purchasers for whom they may act as agents. Underwriters, dealers and agents that participate in the distribution of our securities may be deemed to be underwriters under the Securities Act and any discounts or commissions they receive from us and any profit on the resale of our securities they realize may be deemed to be underwriting discounts and commissions under the Securities Act. Any such underwriter or agent will be identified, and any such compensation received from us, will be described in the applicable supplement to this prospectus. Unless otherwise set forth in the supplement to this prospectus relating thereto, the obligations of the underwriters or agents to purchase our securities will be subject to conditions precedent and the underwriters will be obligated to purchase all our offered securities if any are purchased. The public offering price and any discounts or concessions allowed or reallocated or paid to dealers may be changed from time to time.

Any common stock sold pursuant to this prospectus and applicable prospectus supplement, will be eligible for trading on the NYSE MKT or such other stock exchange that our securities are trading upon at that time.

Underwriters and their controlling persons, dealers and agents may be entitled, under agreements entered into with us to indemnification against and contribution toward specific civil liabilities, including liabilities under the Securities Act.

The securities being offered under this prospectus, other than our common stock, will be new issues of securities with no established trading market and unless otherwise specified in the applicable prospectus supplement. It has not presently been established whether the underwriters, if any, as identified in a prospectus supplement, will make a market in the securities. If the underwriters make a market in the securities, the market making may be discontinued at any time without notice. We cannot provide any assurance as to the liquidity of the trading market for the securities.

Unless the applicable prospectus supplement states otherwise, the obligations of the underwriters to purchase the offered securities will be subject to certain conditions contained in an underwriting agreement that we will enter into with the underwriters at the time of the sale to them. The underwriters will be obligated to purchase all of the securities of the series offered if any of the securities are purchased, unless the applicable prospectus supplement says otherwise. Any initial public offering price and any discounts or concessions allowed, reallocated or paid to dealers may be changed from time to time.

In connection with any offering, the underwriters may purchase and sell securities in the open market. Any underwriter may engage in short sales, over-allotment, stabilizing transactions, short-covering transactions and penalty bids in accordance with Regulation M under the Exchange Act. Stabilizing transactions permit bidders to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum. Short covering transactions involve purchases of the securities in the open market after the distribution is completed to cover short positions. Penalty bids permit the underwriters to reclaim a selling concession from a dealer when the securities originally sold by the dealer are purchased in a covering transaction to cover short positions. Those activities may cause the price of the securities to be higher than it would otherwise be. The underwriters may engage in these activities on any exchange or other market in which the securities may be traded. If commenced, the underwriters may discontinue these activities at any time.

We may also sell securities from time to time pursuant to an “equity line of credit”. In such event, we will enter into a common stock purchase agreement with the purchaser to be named therein, which will be described in a Current Report on Form 8-K that we will file with the SEC. In that Form 8-K, we will describe the total amount of securities that we may require the purchaser to purchase under the purchase agreement and the other terms of purchase, and any rights that the purchaser is granted to purchase securities from us. In addition to our issuance of shares of common stock to the equity line purchaser pursuant to the purchase agreement, this prospectus (and the applicable prospectus supplement or post-effective amendment) also covers the resale of those shares from time to time by the equity line purchaser to the public. The equity line purchaser will be considered an “underwriter” within the meaning of Section 2(a)(11) of the Securities Act. Its resales may be effected through a number of methods, including without limitation, ordinary brokerage transactions and transactions in which the broker solicits purchasers and block trades in which the broker or dealer so engaged will attempt to sell the shares as agent, but may position and resell a portion of the block as principal to facilitate the transaction. The equity line purchaser will be bound by various anti-manipulation rules of the SEC and may not, for example, engage in any stabilization activity in connection with its resales of our securities and may not bid for or purchase any of our securities or attempt to induce any person to purchase any of our securities other than as permitted under the Securities Exchange Act of 1934, as amended, or the Exchange Act.

Fees and Commissions

In compliance with the guidelines of the Financial Industry Regulatory Authority, or “FINRA,” the aggregate maximum discount, commission or agency fees or other items constituting underwriting compensation to be received by any FINRA member or independent broker-dealer will not exceed 8% of any offering pursuant to this prospectus and any applicable prospectus supplement or other offering materials, as the case may be; however, it is anticipated that the maximum commission or discount to be received in any particular offering of securities will be significantly less than this amount.

If 5% or more of the net proceeds of any offering of securities made under this prospectus will be received by a FINRA member participating in the offering or affiliates or associated persons of such FINRA member, the offering will be conducted in accordance with NASD Conduct Rule 2720.

THE SECURITIES WE MAY OFFER

We may sell from time to time, in one or more offerings: common stock; preferred stock; debt securities; warrants; and/or units comprised of any combination of the foregoing. The descriptions of the securities contained in this prospectus summarize the material general terms and provisions of the various types of securities that we may offer. We will describe in the applicable prospectus supplement relating to any securities the particular terms of the securities offered by that prospectus supplement. If we indicate in the applicable prospectus supplement, the terms of the securities may differ from the terms we have summarized below. We will also include in the prospectus

supplement information, where applicable, about material United States federal income tax considerations relating to the securities, and the securities exchange or market, if any, on which the securities will be listed.

The terms of any securities we offer will be determined at the time of sale.

We may issue debt securities that are exchangeable for and/or convertible into common stock or any of the other securities that may be sold under this prospectus. When particular securities are offered by us, a supplement to this prospectus will be filed with the SEC, which will describe the terms of the offering and sale of the offered securities.

The following summary describes the material terms of our capital stock and is subject to, and qualified in its entirety by, our articles of incorporation and bylaws that are included as exhibits to certain of the documents incorporated by reference below and by the provisions of applicable Nevada law. We refer you to the foregoing documents and to Nevada law for a detailed description of the provisions summarized below.

DESCRIPTION OF COMMON STOCK

General

We are authorized to issue 150,000,000 shares of common stock, \$0.001 par value. As of April 18, 2017, there were approximately 62,819,000 shares of common stock issued and outstanding held by approximately 185 holders of record.

If we offer shares of our common stock for sale under this prospectus, we will provide a prospectus supplement that describes the terms of the offering, including the number of shares offered and the offering price.

Voting Rights

Each holder of common stock is entitled to one vote for each share held on all matters submitted to a vote of the stockholders.

Dividends

Subject to the rights of the holders of any preferred stock, the holders of common stock are entitled to receive ratably such dividends as may be declared by our board of directors out of funds legally available for dividends. We have not historically declared or paid cash dividends on our common stock.

Other Rights

In the event of a liquidation, dissolution or winding up of us, holders of our common stock are entitled to share ratably in all assets remaining after payment of liabilities and the liquidation preference, if any, of any then outstanding preferred stock. Holders of our common stock are not entitled to preemptive rights and have no subscription, redemption or conversion privileges. All outstanding shares of common stock are, and all shares of common stock issued by us in an offering under this prospectus and the applicable prospectus supplement will be, fully paid and

nonassessable. The rights, preferences and privileges of holders of common stock are subject to, and may be adversely affected by, the rights of the holders of shares of any series of preferred stock which our board of directors may designate and that we may issue in one or more offerings under this prospectus or at other times in the future.

Transfer Agent and Registrar

The transfer agent and registrar for our common stock is Corporate Stock Transfer, Inc., 3200 Cherry Creek Drive South, Suite 430, Denver, Colorado 80209, (303) 282-4800.

Listing

Our common stock is listed on the NYSE MKT under the symbol “NNVC.” Any common stock we sell under this prospectus, as it may be supplemented, will be listed on the NYSE MKT.

DESCRIPTION OF PREFERRED STOCK

General

We are authorized to issue up to 20,000,000 shares of preferred stock in one or more series, with such designations, preferences and relative, participating, option and other special rights, qualifications, limitations or restrictions as determined by our board of directors, without any further vote or action by our stockholders, including dividend rights, conversion rights, voting rights, redemption rights and terms of redemption and liquidation preferences. On February 15, 2010, our board had designated an aggregate of split-adjusted shares of preferred stock as Series A Convertible Preferred Stock (the “Series A”) and 4,098,810 shares of Series A Preferred Stock are issued or outstanding and no other shares of preferred stock are issued and outstanding. On January 23, 2016, the Company’s Board of Directors and a majority of the holders of the Company’s Series A shares approved an amendment to the Certificate of Designation of the Series A Shares to increase the number of authorized Series A Shares from 4,000,000 to 8,500,000. On April 1, 2011, our board had designated an aggregate of 2,000,000 shares of preferred stock as Series B Convertible Preferred Stock (the “Series B”) and no shares of Series B Preferred Stock are issued or outstanding, and no shares are available for issuance. On June 27, 2012, our board had designated an aggregate of 5,000 shares of preferred stock as Series C Convertible Preferred Stock (the “Series C”) and no shares of Series C Preferred Stock are issued or outstanding. No other shares of preferred stock are issued and outstanding.

Our board may fix the number of shares constituting any series and the designations of these series by adopting a certificate of designation relating to each series. The prospectus supplement relating to each series will specify the terms of the preferred stock, including:

- the number of shares we are offering;
- the offering price for those shares;
- the maximum number of shares in the series and the distinctive designation thereof;
- the terms on which dividends will be paid, if any;
- the terms on which the shares will be redeemed, if at all;
- the liquidation preference, if any;
- the terms of any retirement or sinking fund for the purchase or redemption of the shares of the series;
- the terms and conditions, if any, on which the shares of the series will be convertible into, or exchangeable for, shares of any other class or classes of capital stock;
- the voting rights, if any, on the shares of the series;
- any securities exchange or market on which the shares will be listed; and
- any other preferences and relative, participating, operation or other special rights or qualifications, limitations or restrictions of the shares

You should also refer to the applicable certificate of designation for complete information about the terms, preferences and rights related to a particular series of our preferred stock, which we will incorporate as an exhibit to the registration statement of which this prospectus is a part. The prospectus supplement will contain a description of United States federal income tax consequences relating to the preferred stock, to the extent applicable.

Our issuance of preferred stock may have the effect of delaying or preventing a change in control. Our issuance of preferred stock could decrease the amount of earnings and assets available for distribution to the holders of common stock or could adversely affect the rights and powers, including voting rights, of the holders of common stock. The issuance of preferred stock could have the effect of decreasing the market price of our common stock.

Series A Convertible Preferred Stock

The Series A Preferred Stock is convertible, solely upon a “change of control”, into shares of our Common Stock at the rate of three and one-half shares of Common Stock per share of Series A converted. For the purposes of conversion of the Series A, change of control is defined as (a) an acquisition after the date hereof by an individual or legal entity or “group” (as described in Rule 13d-5(b)(1) promulgated under the Exchange Act) of effective control (whether through legal or beneficial ownership of capital stock of the Company, by contract or otherwise) of in excess of 40% of the voting securities of the Company (other than by means of conversion or exercise of the Series A Preferred Stock and the Securities issued together with the Series A Preferred Stock), (b) the Company merges into or consolidates with

any other Person, or any Person merges into or consolidates with the Company and, after giving effect to such transaction, the stockholders of the Company immediately prior to such transaction own less than 60% of the aggregate voting power of the Company or the successor entity of such transaction, (c) the Company sells or transfers all or substantially all of its Intellectual Property to another Person and the stockholders of the Company prior to such transaction own less than 60% of the aggregate voting power of the acquiring entity immediately after the transaction, or (d) the execution by the Company of an agreement to which the Company is a party or by which it is bound, providing for any of the events set forth in clauses (a) through (c) above. The Series A Preferred Stock votes at the rate of nine votes per share of Series A, together with the Common Stock, on all matters to which shareholders of the Company are entitled to vote. Holders of the Series A Preferred Stock are not entitled to receive dividends or any liquidation preference upon the liquidation, dissolution, or winding up of the Company.

DESCRIPTION OF DEBT SECURITIES

General

The debt securities that we may offer by this prospectus consist of notes, debentures, or other evidences of indebtedness. The debt securities may constitute either senior or subordinated debt securities, and in either case may be either secured or unsecured. Any debt securities that we offer and sell will be our direct obligations. Debt securities may be issued in one or more series. All debt securities of any one series need not be issued at the same time, and unless otherwise provided, a series of debt securities may be reopened, with the required consent of the holders of outstanding debt securities, for issuance of additional debt securities of that series or to establish additional terms of that series of debt securities (with such additional terms applicable only to unissued or additional debt securities of that series). The form of indenture has been filed as an exhibit to the registration statement of which this prospectus is a part and is subject to any amendments or supplements that we may enter into with the trustee(s), however, we may issue debt securities not subject to the indenture provided such terms of debt securities are not otherwise required to be set forth in the indenture. The material terms of the indenture are summarized below and we refer you to the indenture for a detailed description of these material terms. Additional or different provisions that are applicable to a particular series of debt securities will, if material, be described in a prospectus supplement relating to the offering of debt securities of that series. These provisions may include, among other things and to the extent applicable, the following:

- the title of the debt securities, including, as applicable, whether the debt securities will be issued as senior debt securities, senior subordinated debt securities or subordinated debt securities, any subordination provisions particular to the series of debt securities;
- any limit on the aggregate principal amount of the debt securities;
- whether the debt securities are senior debt securities or subordinated debt securities and applicable subordination provisions, if any;
- whether the debt securities will be secured or unsecured;
- if other than 100% of the aggregate principal amount, the percentage of the aggregate principal amount at which we will sell the debt securities, such as an original issuance discount;
- the date or dates, whether fixed or extendable, on which the principal of the debt securities will be payable;
- the rate or rates, which may be fixed or variable, at which the debt securities will bear interest, if any, the date or dates from which any such interest will accrue, the interest payment dates on which we will pay any such interest;
- the basis upon which interest will be calculated if other than that of a 360-day year consisting of twelve 30-day months, and, in the case of registered securities, the record dates for the determination of holders to whom interest is payable;
- the place or places where the principal of and any premium or interest on the debt securities will be payable and where the debt securities may be surrendered for conversion or exchange;
- whether we may, at our option, redeem the debt securities, and if so, the price or prices at which, the period or periods within which, and the terms and conditions upon which, we may redeem the debt securities, in whole or in part, pursuant to any sinking fund or otherwise;
- if other than 100% of the aggregate principal amount thereof, the portion of the principal amount of the debt securities which will be payable upon declaration of acceleration of the maturity date thereof or provable in

bankruptcy, or, if applicable, which is convertible or exchangeable;
any obligation we may have to redeem, purchase or repay the debt securities pursuant to any sinking fund or analogous provisions or at the option of a holder of debt securities, and the price or prices at which, the currency in which and the period or periods within which, and the terms and conditions upon which, the debt securities will be redeemed, purchased or repaid, in whole or in part, pursuant to any such obligation, and any provision for the remarketing of the debt securities;
the issuance of debt securities as registered securities or unregistered securities or both, and the rights of the holders of the debt securities to exchange unregistered securities for registered securities, or vice versa, and the circumstances under which any such exchanges, if permitted, may be made;
the denominations, which may be in United States Dollars or in any foreign currency, in which the debt securities will be issued, if other than denominations of \$1,000 and any integral multiple thereof;
whether the debt securities will be issued in the form of certificated debt securities, and if so, the form of the debt securities (or forms thereof if unregistered and registered securities are issuable in that series), including the legends required by law or as we deem necessary or appropriate, the form of any coupons or temporary global security which may be issued and the forms of any other certificates which may be required under the indenture or which we may require in connection with the offering, sale, delivery or exchange of the debt securities;

- if other than United States Dollars, the currency or currencies in which payments of principal, interest and other
- amounts payable with respect to the debt securities will be denominated, payable, redeemable or repurchasable, as the case may be;
- whether the debt securities may be issuable in tranches;
- the obligations, if any, we may have to permit the conversion or exchange of the debt securities into common stock, preferred stock or other capital stock or property, or a combination thereof, and the terms and conditions upon
- which such conversion or exchange will be effected (including conversion price or exchange ratio), and any limitations on the ownership or transferability of the securities or property into which the debt securities may be converted or exchanged;
- if other than the trustee under the indenture, any trustees, authenticating or paying agents, transfer agents or registrars or any other agents with respect to the debt securities;
- any deletions from, modifications of or additions to the events of default with respect to the debt securities or the right of the Trustee or the holders of the debt securities in connection with events of default;
- any deletions from, modifications of or additions to the covenants with respect to the debt securities;
- if the amount of payments of principal of, and make-whole amount, if any, and interest on the debt securities may be determined with reference to an index, the manner in which such amount will be determined;
- whether the debt securities will be issued in whole or in part in the global form of one or more debt securities and, if so, the depository for such debt securities, the circumstances under which any such debt security may be exchanged
- for debt securities registered in the name of, and under which any transfer of debt securities may be registered in the name of, any person other than such depository or its nominee, and any other provisions regarding such debt securities;
- whether, under what circumstances and the currency in which, we will pay additional amounts on the debt securities to any holder of the debt securities who is not a United States person in respect of any tax, assessment or governmental charge and, if so, whether we will have the option to redeem such debt securities rather than pay such additional amounts, and the terms of any such option;
- whether the debt securities will be secured by any collateral and, if so, a general description of the collateral and the terms of any related security, pledge or other agreements;
- the persons to whom any interest on the debt securities will be payable, if other than the registered holders thereof on the regular record date therefor; and
- any other material terms or conditions upon which the debt securities will be issued.

Unless otherwise indicated in the applicable prospectus supplement, we will issue debt securities in fully registered form without coupons and in denominations of \$1,000 and in integral multiples of \$1,000, and interest will be computed on the basis of a 360-day year of twelve 30 day months. If any interest payment date or the maturity date falls on a day that is not a business day, then the payment will be made on the next business day without additional interest and with the same effect as if it were made on the originally scheduled date. "Business day" means any calendar day that is not a Saturday, Sunday or legal holiday in New York, New York, and on which the trustee and commercial banks are open for business in New York, New York.

Unless we inform you otherwise in a prospectus supplement, each series of our senior debt securities will rank equally in right of payment with all of our other unsubordinated debt. The subordinated debt securities will rank junior in right of payment and be subordinate to all of our unsubordinated debt.

Unless otherwise indicated in the applicable prospectus supplement, the trustee will act as paying agent and registrar for the debt securities under the indenture. We may act as paying agent under the indenture.

The prospectus supplement will contain a description of United States federal income tax consequences relating to the debt securities, to the extent applicable.

Covenants

The applicable prospectus supplement will describe any covenants, such as restrictive covenants restricting us or our subsidiaries, if any, from incurring, issuing, assuming or guarantying any indebtedness or restricting us or our subsidiaries, if any, from paying dividends or acquiring any of our or its capital stock.

Consolidation, Merger and Transfer of Assets

The indenture permits a consolidation or merger between us and another entity and/or the sale, conveyance or lease by us of all or substantially all of our property and assets, provided that:

the resulting or acquiring entity, if other than us, is organized and existing under the laws of a United States jurisdiction and assumes all of our responsibilities and liabilities under the indenture, including the payment of all amounts due on the debt securities and performance of the covenants in the indenture;

immediately after the transaction, and giving effect to the transaction, no event of default under the indenture exists; and

we have delivered to the trustee an officers' certificate stating that the transaction and, if a supplemental indenture is required in connection with the transaction, the supplemental indenture comply with the indenture and that all conditions precedent to the transaction contained in the indenture have been satisfied.

If we consolidate or merge with or into any other entity, or sell or lease all or substantially all of our assets in compliance with the terms and conditions of the indenture, the resulting or acquiring entity will be substituted for us in the indenture and the debt securities with the same effect as if it had been an original party to the indenture and the debt securities. As a result, such successor entity may exercise our rights and powers under the indenture and the debt securities, in our name and, except in the case of a lease, we will be released from all our liabilities and obligations under the indenture and under the debt securities.

Notwithstanding the foregoing, we may transfer all of our property and assets to another entity if, immediately after giving effect to the transfer, such entity is our wholly owned subsidiary. The term "wholly owned subsidiary" means any subsidiary in which we and/or our other wholly owned subsidiaries, if any, own all of the outstanding capital stock.

Modification and Waiver

Under the indenture, some of our rights and obligations and some of the rights of the holders of the debt securities may be modified or amended with the consent of the holders of not less than a majority in aggregate principal amount of the outstanding debt securities affected by the modification or amendment. However, the following modifications and amendments will not be effective against any holder without its consent:

- a change in the stated maturity date of any payment of principal or interest;
- a reduction in the principal amount of or interest on any debt securities;
- an alteration or impairment of any right to convert at the rate or upon the terms provided in the indenture;
- a change in the currency in which any payment on the debt securities is payable;
- an impairment of a holder's right to sue us for the enforcement of payments due on the debt securities; or
- a reduction in the percentage of outstanding debt securities required to consent to a modification or amendment of the indenture or required to consent to a waiver of compliance with certain provisions of the indenture or certain defaults under the indenture.

Under the indenture, the holders of not less than a majority in aggregate principal amount of the outstanding debt securities may, on behalf of all holders of the debt securities:

- waive compliance by us with certain restrictive provisions of the indenture; and
- waive any past default under the indenture in accordance with the applicable provisions of the indenture, except a default in the payment of the principal of or interest on any series of debt securities.

Events of Default

Unless we indicate otherwise in the applicable prospectus supplement, “event of default” under the indenture will mean, with respect to any series of debt securities, any of the following:

- failure to pay interest on any debt security for 30 days after the payment is due;
- failure to pay the principal of any debt security when due, either at maturity, upon redemption, by declaration or otherwise;
- failure on our part to observe or perform any other covenant or agreement in the indenture that applies to the debt securities for 90 days after we have received written notice of the failure to perform in the manner specified in the indenture; and
- certain events of bankruptcy, insolvency or reorganization.

Remedies Upon an Event of Default

If an event of default occurs and continues, the trustee or the holders of not less than 25% in aggregate principal amount of the outstanding debt securities of such series may declare the entire principal of all the debt securities to be due and payable immediately, except that, if the event of default is caused by certain events in bankruptcy, insolvency or reorganization, the entire principal of all of the debt securities of such series will become due and payable immediately without any act on the part of the trustee or holders of the debt securities. If such a declaration occurs, the holders of a majority of the aggregate principal amount of the outstanding debt securities of such series can, subject to conditions, rescind the declaration.

The indenture requires us to furnish to the trustee not less often than annually, a certificate from our principal executive officer, principal financial officer or principal accounting officer, as the case may be, as to such officer’s knowledge of our compliance with all conditions and covenants under the indenture. The trustee may withhold notice to the holders of debt securities of any default, except defaults in the payment of principal of or interest on any debt securities if the trustee in good faith determines that the withholding of notice is in the best interests of the holders. For purposes of this paragraph, “default” means any event which is, or after notice or lapse of time or both would become, an event of default under the indenture.

The trustee is not obligated to exercise any of its rights or powers under the indenture at the request, order or direction of any holders of debt securities, unless the holders offer the trustee satisfactory security or indemnity. If satisfactory security or indemnity is provided, then, subject to other rights of the trustee, the holders of a majority in aggregate principal amount of the outstanding debt securities may direct the time, method and place of:

- conducting any proceeding for any remedy available to the trustee; or
- exercising any trust or power conferred upon the trustee.

The holder of a debt security will have the right to begin any proceeding with respect to the indenture or for any remedy only if:

- the holder has previously given the trustee written notice of a continuing event of default;
- the holders of not less than a majority in aggregate principal amount of the outstanding debt securities have made a written request of, and offered reasonable indemnity to, the trustee to begin such proceeding;
- the trustee has not started such proceeding within 60 days after receiving the request; and
- no direction inconsistent with such written request has been given to the trustee under the indenture.

However, the holder of any debt security will have an absolute right to receive payment of principal of and interest on the debt security when due and to institute suit to enforce this payment.

Satisfaction and Discharge; Defeasance

Satisfaction and Discharge of Indenture. Unless otherwise indicated in the applicable prospectus supplement, if at any time,

- we have paid the principal of and interest on all the debt securities of any series, except for debt securities which have been destroyed, lost or stolen and which have been replaced or paid in accordance with the indenture, as and when the same shall have become due and payable, or
- we have delivered to the trustee for cancellation all debt securities of any series theretofore authenticated, except for debt securities of such series which have been destroyed, lost or stolen and which have been replaced or paid as provided in the indenture, or
- all the debt securities of such series not theretofore delivered to the trustee for cancellation have become due and payable, or are by their terms to become due and payable within one year or are to be called for redemption within one year, and we have deposited with the trustee, in trust, sufficient money or government obligations, or a combination thereof, to pay the principal, any interest and any other sums due on the debt securities, on the dates the payments are due or become due under the indenture and the terms of the debt securities,

then the indenture shall cease to be of further effect with respect to the debt securities of such series, except for:

- rights of registration of transfer and exchange, and our right of optional redemption;
- substitution of mutilated, defaced, destroyed, lost or stolen debt securities;
- rights of holders to receive payments of principal thereof and interest thereon upon the original stated due dates therefor (but not upon acceleration) and remaining rights of the holders to receive mandatory sinking fund payments, if any;
- the rights, obligations and immunities of the trustee under the indenture; and
- the rights of the holders of such series of debt securities as beneficiaries thereof with respect to the property so deposited with the trustee payable to all or any of them.

Defeasance and Covenant Defeasance. Unless otherwise indicated in the applicable prospectus supplement, we may elect with respect to any debt securities of any series either:

- to defease and be discharged from all of our obligations with respect to such debt securities (“defeasance”), with certain exceptions described below; or
- to be released from our obligations with respect to such debt securities under such covenants as may be specified in the applicable prospectus supplement, and any omission to comply with those obligations will not constitute a default or an event of default with respect to such debt securities (“covenant defeasance”).

We must comply with the following conditions before the defeasance or covenant defeasance can be effected:

- we must irrevocably deposit with the indenture trustee or other qualifying trustee, under the terms of an irrevocable trust agreement in form and substance satisfactory to the trustee, trust funds in trust solely for the benefit of the holders of such debt securities, sufficient money or government obligations, or a combination thereof, to pay the principal, any interest and any other sums on the due dates for those payments; and
- we must deliver to the trustee an opinion of counsel to the effect that the holders of such debt securities will not recognize income, gain or loss for federal income tax purposes as a result of defeasance or covenant defeasance, as the case may be, to be effected with respect to such debt securities and will be subject to federal income tax on the same amount, in the same manner and at the same times as would be the case if such defeasance or covenant defeasance, as the case may be, had not occurred.

In connection with defeasance, any irrevocable trust agreement contemplated by the indenture must include, among other things, provision for:

- payment of the principal of and interest on such debt securities, if any, appertaining thereto when due (by redemption, sinking fund payments or otherwise),
- the payment of the expenses of the trustee incurred or to be incurred in connection with carrying out such trust provisions,
- rights of registration, transfer, substitution and exchange of such debt securities in accordance with the terms stated in the indenture, and
- continuation of the rights, obligations and immunities of the trustee as against the holders of such debt securities as stated in the indenture.

The accompanying prospectus supplement may further describe any provisions permitting or restricting defeasance or covenant defeasance with respect to the debt securities of a particular series.

Global Securities

Unless otherwise indicated in the applicable prospectus supplement, each debt security offered by this prospectus will be issued in the form of one or more global debt securities representing all or part of that series of debt securities. This means that we will not issue certificates for that series of debt securities to the holders. Instead, a global debt security representing that series will be deposited with, or on behalf of, a securities depository and registered in the name of the depository or a nominee of the depository. Any such depository must be a clearing agency registered under the Exchange Act. We will describe the specific terms of the depository arrangement with respect to a series of debt securities to be represented by a global security in the applicable prospectus supplement.

Notices

We will give notices to holders of the debt securities by mail at the addresses listed in the security register. In the case of notice in respect of unregistered securities or coupon securities, we may give notice by publication in a newspaper of general circulation in New York, New York.

Governing Law

The particular terms of a series of debt securities will be described in a prospectus supplement relating to such series of debt securities. Any indentures will be subject to and governed by the Trust Indenture Act of 1939, as amended, and may be supplemented or amended from time to time following their execution. Unless otherwise stated in the applicable prospectus supplement, we will not be limited in the amount of debt securities that we may issue, and

neither the senior debt securities nor the subordinated debt securities will be secured by any of our property or assets. Thus, by owning debt securities, you are one of our unsecured creditors.

Regarding the Trustee

From time to time, we may maintain deposit accounts and conduct other banking transactions with the trustee to be appointed under the indenture or its affiliates in the ordinary course of business.

DESCRIPTION OF WARRANTS

We may offer to sell warrants from time to time. If we do so, we will describe the specific terms of the warrants in a prospectus supplement. In particular, we may issue warrants for the purchase of common stock, preferred stock and/or debt securities in one or more series. We may also issue warrants independently or together with other securities and the warrants may be attached to or separate from those securities.

We will evidence each series of warrants by warrant certificates that we will issue under a separate agreement. We will enter into the warrant agreement with a warrant agent. We will indicate the name and address of the warrant agent in the applicable prospectus supplement relating to a particular series of warrants.

We will describe in the applicable prospectus supplement the terms of the series of warrants, including:

- the offering price and aggregate number of warrants offered;
- the currency for which the warrants may be purchased;
- if applicable, the designation and terms of the securities with which the warrants are issued and the number of warrants issued with each such security or each principal amount of such security;
- if applicable, the date on and after which the warrants and the related securities will be separately transferable;
- in the case of warrants to purchase debt securities, the principal amount of debt securities purchasable upon exercise of one warrant and the price at, and currency in which, this principal amount of debt securities may be purchased upon such exercise;
- in the case of warrants to purchase common stock or preferred stock, the number of shares of common stock or preferred stock, as the case may be, purchasable upon the exercise of one warrant and the price at which these shares may be purchased upon such exercise;
- the effect of any merger, consolidation, sale or other disposition of our business on the warrant agreement and the warrants;
- the terms of any rights to redeem or call the warrants;
- any provisions for changes to or adjustments in the exercise price or number of securities issuable upon exercise of the warrants;
- the dates on which the right to exercise the warrants will commence and expire;
- the manner in which the warrant agreement and warrants may be modified;
- certain United States federal income tax consequences of holding or exercising the warrants;
- the terms of the securities issuable upon exercise of the warrants; and
- any other specific material terms, preferences, rights or limitations of or restrictions on the warrants.

Holders may exercise the warrants by delivering the warrant certificate representing the warrants to be exercised together with other requested information, and paying the required amount to the warrant agent in immediately available funds, as provided in the applicable prospectus supplement. We will set forth in the applicable prospectus supplement the information that the holder of the warrant will be required to deliver to the warrant agent.

Upon receipt of the required payment and the warrant certificate properly completed and duly executed at the office of the warrant agent or any other office indicated in the applicable prospectus supplement, we will issue and deliver the securities purchasable upon such exercise. If a holder exercises fewer than all of the warrants represented by the warrant certificate, then we will issue a new warrant certificate for the remaining amount of warrants.

Holder will not have any of the rights of the holders of the securities purchasable upon the exercise of warrants until you exercise them. Accordingly, holder will not be entitled to, among other things, vote or receive dividend payments or similar distributions on the securities you can purchase upon exercise of the warrants.

The information provided above is only a summary of the terms under which we may offer warrants for sale. Accordingly, investors must carefully review the applicable warrant agreement for more information about the specific terms and conditions of these warrants before investing in us. In addition, please carefully review the information provided in the applicable prospectus supplement, which contains additional information that is important for you to consider in evaluating an investment in our securities.

LEGAL MATTERS

Certain legal matters with respect to the validity of the securities offered under this prospectus and any supplement hereto will be passed upon for us by Kane Kessler, P.C., New York, New York. Counsel for any underwriter or agents will be noted in the applicable prospectus supplement.

EXPERTS

The balance sheets of NanoViricides, Inc. as of June 30, 2016 and 2015, and the related statements of operations, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended June 30, 2016, have been audited by EisnerAmper LLP, independent registered public accounting firm, as statertising services providers. Accordingly, our subsidiary, CDTC, is ineligible to apply for the required licenses for providing advertising services in China. Our advertising business is operated through our contractual arrangements with CDMTV. CDTC and CDMTV entered into a series of agreements on March 30, 2006, including a technology and management service agreement, a domain name license agreement, a loan agreement, a proxy letter, an option agreement and an equity pledge agreement. CDTC and CDMTV entered into a series of new agreements on February 15, 2007, which replaced the agreements entered into on March 30, 2006 described in the preceding sentence. These contractual arrangements enable us to exercise effective control over CDMTV and its subsidiaries and receive substantially all of the economic benefits of CDMTV and its subsidiaries in consideration for the services provided by our subsidiary in China. We intend to continue our business operations in China upon the expiration of these contractual arrangements by renewing them or entering into new contractual arrangements if the then current PRC law does not allow us to directly operate advertising businesses in China. We believe that, under these contractual arrangements, we have sufficient control over CDMTV and its shareholders to renew or enter into new contractual arrangements prior to the expiration of the current arrangements on terms that would enable us to continue to operate our business in China after the expiration of the current arrangements.

Agreements That Transfer Economic Benefit to Us

Technology and Management Service Agreement. Pursuant to the technology and management service agreement entered into on February 15, 2007 between CDTC and CDMTV, CDTC provides technology consulting and management services related to the business operations of CDMTV. As consideration for such services, CDMTV has agreed to pay service fees as specified by CDTC in its fee notice to CDMTV from time to time. The fees payable are calculated based on hourly rates set forth in the agreement or otherwise agreed upon between the parties. The term of this agreement is 25 years from the date thereof. In the event of a default under this agreement, the non-defaulting party can terminate this agreement.

Domain Name License Agreement. Pursuant to the domain name license agreement entered into on February 15, 2007 between CDTC and CDMTV, CDTC grants CDMTV the exclusive right to use its domain names www.cdmtv.tv and www.cdmg.cn, in exchange for a fee based on the gross annual revenues of CDMTV. The fee is subject to periodic adjustments by the parties. The agreement has a term of 25 years, which may be terminated at any time or extended by CDTC at its discretion. In the event of a default under this agreement, the non-defaulting party can terminate this agreement.

Agreements That Provide Us Effective Control Over CDMTV and Its Subsidiaries

Loan Agreement. CDTC entered into a loan agreement with Limin Li and Yanqing Liang on February 15, 2007 that allows us to capitalize our PRC operating affiliates and which facilitates the establishment of our current corporate structure. CDTC made an interest-free loan of RMB50 million to the shareholders of CDMTV. The loan can be repaid only with the proceeds from the transfer of the shareholder's equity interest in CDMTV to CDTC or another person designated by CDTC pursuant to the Option Agreement as discussed below. In the event of a default under this agreement, the non-defaulting party can terminate this agreement.

Proxy Letter. Limin Li and Yanqing Liang signed certain proxy letters on February 15, 2007, pursuant to which Limin Li and Yanqing Liang have granted an employee of CDTC, who is a PRC citizen, the right to exercise all their voting rights as shareholders of CDMTV as provided under its articles of association. Such grant must be approved by CDTC and the grantee must be an employee of CDTC. If the grantee ceases to be an

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employee of CDTC, then the grantors will revoke the proxy and grant a similar proxy to a then current employee of CDTC designated by CDTC. The proxy letters will remain effective until February 15, 2032.

Option Agreement. CDTC and Limin Li and Yanqing Liang entered into an option agreement on February 15, 2007, pursuant to which CDTC has an exclusive option to purchase, or to designate another qualified person to purchase, to the extent permitted by PRC law and foreign investment policies, part or all of the equity interests in CDMTV owned by Limin Li and Yanqing Liang. The purchase price for the entire equity interest shall be the greater of (i) RMB50 million and (ii) the minimum price permitted by applicable PRC law and agreed upon by the parties. The option agreement remains in effect until the completion of the transfer of all the shares in accordance with the option agreement. In the event of a default under this agreement, the non-defaulting party can terminate this agreement.

Equity Pledge Agreement. Pursuant to an equity pledge agreement entered into on February 15, 2007, Limin Li and Yanqing Liang have pledged their equity interest in CDMTV to CDTC to secure their obligations under the loan agreement and CDMTV's obligations under the technology and management service agreement and domain name license agreement, each as described above. In addition, shareholders of CDMTV agree not to transfer, sell, pledge, dispose of or create any encumbrance on any equity interests in CDMTV that would affect the pledgee's interests. The equity pledge agreement will expire when the shareholders fully perform their obligations under the agreements described above.

In the opinion of Grandall Legal Group, our PRC legal counsel:

the ownership structure of CDMTV and its subsidiaries and our other PRC affiliates, complies with, and immediately after this offering, will comply with, current PRC laws, rules and regulations;

our contractual arrangements with CDMTV and its shareholders are valid and binding on all parties to these arrangements, and do not violate current PRC laws, rules or regulations; and

the business operations of CDTC, CDMTV and its subsidiaries comply with current PRC laws, rules and regulations.

Our PRC legal counsel has further advised us that there are substantial uncertainties regarding the interpretation and application of current and future PRC laws and regulations. Accordingly, the PRC regulatory authorities may take a view that is contrary to the above opinion of our PRC legal counsel in the future. We have been further advised by our PRC counsel that if the PRC government determines that the agreements that establish the structure for operating our PRC advertising network businesses do not comply with applicable restrictions on foreign investment in the advertising industry or the mobile digital televisions industry, we could be subject to severe penalties including being prohibited from continuing operation. See Risk Factors Risks Related to Our Corporate Structure.

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The following selected condensed consolidated statement of operations data for the period from April 8, 2005 (date of inception) to December 31, 2005 and for the years ended December 31, 2006 and 2007 and the condensed consolidated balance sheet data as of December 31, 2006 and 2007 have been derived from our audited consolidated financial statements, which are included elsewhere in this prospectus. The following selected condensed consolidated balance sheet data as of December 31, 2005 have been derived from our audited consolidated financial statements, which are not included elsewhere in this prospectus. You should read the selected condensed consolidated financial data in conjunction with those financial statements and the related notes and the Management's Discussion and Analysis of Financial Condition and Results of Operations section of this prospectus. Our consolidated financial statements are prepared and presented in accordance with U.S. GAAP. Our historical results do not necessarily indicate our results expected for any future periods.

	For the Period from April 8, 2005 (date of inception) to December 31, 2005	For the Year Ended December 31,	
		2006	2007
	(US\$, except number of shares)		
Condensed Consolidated Statement of Operations Data:			
Revenues			
Advertising service revenues		2,033,284	27,489,391
Advertising equipment revenues	290,521	1,839,598	1,896,200
Total revenues	290,521	3,872,882	29,385,591
Cost of revenues			
Advertising service cost		3,967,081	12,801,957
Advertising equipment cost	261,504	1,639,895	1,583,325
Total cost of revenues	261,504	5,606,976	14,385,282
Gross profit (loss)	29,017	(1,734,094)	15,000,309
Operating expenses			
Government grant		125,953	
Loss from equity method investees	(104,475)	(469,841)	(1,262,273)
Operating profit (loss)	(461,673)	(4,145,273)	8,639,460
Interest income	45,264	98,873	505,888
Other expenses		(22,608)	(95,719)
Net income (loss) before income taxes	(416,409)	(4,069,008)	9,049,629
Income taxes			332,386
Minority interest			11,343
Net income (loss)	(416,409)	(4,069,008)	9,393,358
Deemed dividend on convertible redeemable preferred shares		1,583,333	6,625,262
Net income (loss) attributable to holders of common shares	(416,409)	(5,652,341)	2,768,096
Net income (loss) per common share:			
Basic	(0.02)	(0.26)	0.11
Diluted	(0.02)	(0.26)	0.11
Shares used in computation of net income (loss) per share:			

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Basic	22,000,000	22,000,000	24,709,522
Diluted	22,000,000	22,000,000	25,771,702
Share-based compensation expenses during the related periods included in:			
Cost of revenues		37,576	34,431
Selling and marketing expenses		5,374	135,722
General and administrative expenses		35,802	51,209

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	2005	As of December 31, 2006 (US\$)	2007
Condensed Consolidated Balance Sheet Data:			
Cash and cash equivalents	2,599,078	5,215,693	131,139,659
Total assets	6,040,923	17,043,776	175,300,276
Total current liabilities	247,117	1,241,783	10,618,779
Total shareholders' equity	5,793,806	581,666	164,028,819

Table of Contents**RECENT DEVELOPMENTS****Results of Operations for the Six Months Ended June 30, 2008**

The following selected consolidated financial data for the six months ended June 30, 2007 and June 30, 2008 and as of June 30, 2008 have been derived from our unaudited interim consolidated financial information for these periods. The following selected consolidated balance sheet data as of December 31, 2007 have been derived from our audited consolidated financial statements, which are included elsewhere in this prospectus. Our unaudited interim consolidated financial information for the six months ended June 30, 2007 and June 30, 2008 and as of June 30, 2008 are prepared in accordance with U.S. GAAP and reflect all adjustments, consisting only of normal and recurring adjustments, that are necessary for a fair presentation of our financial position and results of operations in the interim periods presented. Results for the six months ended June 30, 2008 are not necessarily indicative of the results for the full year of 2008 or any interim period subsequent to June 30, 2008.

	For Six Months Ended June 30,	
	2007	2008
	(US\$, except number of shares)	
Consolidated Statement of Operations Data:		
Revenues		
Advertising service revenues	7,095,169	33,394,211
Advertising equipment revenues	967,196	527,360
Total revenues	8,062,365	33,921,571
Cost of revenues		
Advertising service cost	(5,325,697)	(14,306,233)
Advertising equipment cost	(792,688)	(441,510)
Total costs of revenues	(6,118,385)	(14,747,743)
Gross profit	1,943,980	19,173,828
Operating expenses		
Selling and marketing	(497,414)	(4,607,304)
General and administrative	(1,071,490)	(1,807,560)
Total operating expenses	(1,568,904)	(6,414,864)
Loss from equity method investees	(490,049)	(442,472)
Operating profit (loss)	(114,973)	12,316,492
Interest income	58,450	1,651,016
Other expenses	(36,391)	(18,982)
Net income (loss) before income taxes	(92,914)	13,948,526
Income tax expense		(73,152)
Net income (loss) after income taxes	(92,914)	13,875,374
Minority interest		40,668
Net income (loss)	(92,914)	13,916,042
Deemed dividend on convertible redeemable preferred shares	(2,079,220)	

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Net income (loss) attributable to holders of common shares	(2,172,134)	13,916,042
Net income (loss) per common share:		
Basic	(0.10)	0.20
Diluted	(0.10)	0.19
Shares used in computation of net income (loss) per share:		
Basic	22,000,000	68,637,810
Diluted	22,000,000	71,618,437
Share-based compensation expenses during the related periods included in:		
Cost of revenues	14,682	20,643
Selling and marketing expenses	43,769	483,146
General and administrative expenses	17,989	54,799

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	As of December 31, 2007	June 30, 2008 (US\$)
Consolidated Balance Sheet Data:		
ASSETS		
Current Assets:		
Cash and cash equivalents	131,139,659	124,168,704
Accounts receivable, net	13,256,450	19,832,753
Amounts due from related parties	3,632,864	4,213,491
Prepaid expense and other current assets	9,683,059	14,763,519
Deferred tax assets, net	332,386	279,285
Total current assets	158,044,418	163,257,752
Non-current Assets:		
Fixed assets, net	7,709,204	9,771,198
Investments under equity method	6,714,853	6,684,371
Other investments	2,128,732	2,263,890
Long-term prepaid expenses	703,069	705,485
Long-term payments and deposits		16,537,272
Intangible assets		10,568,461
Total non-current assets	17,255,858	46,530,677
TOTAL ASSETS	175,300,276	209,788,429
LIABILITIES AND SHAREHOLDERS EQUITY		
Current Liabilities:		
Accounts payable	4,236,695	3,771,974
Amounts due to related parties	327,532	410,242
Accrued expenses and other current liabilities	6,054,552	5,848,321
Total current liabilities	10,618,779	10,030,537
Non-current liabilities:		
Contingent consideration		8,677,700
Deferred tax liabilities		2,218,766
Total non-current liabilities		10,896,466
TOTAL LIABILITIES	10,618,779	20,927,003
Minority interest	652,678	612,009
Shareholders equity		
Common shares	6,839	6,920
Additional paid-in capital	163,820,443	167,604,519
Accumulated profit/(deficit)	(3,300,654)	10,615,387
Accumulated other comprehensive income	3,502,191	10,022,591
Total shareholders equity	164,028,819	188,249,417
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	175,300,276	209,788,429

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	December 31, 2007	As of June 30, 2008 (US\$)
Selected Operating Data:		
Number of digital television displays in our mobile digital television advertising network	41,202	57,252
Number of digital displays in our stationary advertising platform	208	2,908
 Total number of digital displays	 41,410	 60,160
		Six Months Ended June 30, 2007 2008
Total hours of broadcasting ⁽¹⁾		31,748 55,502
Average revenue per hour ⁽¹⁾⁽²⁾ (US\$)		211 583
Average advertising minutes sold per hour		4.88 7.25

(1) Includes all of the cities in our network and stationary advertising platform.

(2) We calculate average revenue per hour by dividing our advertising service revenues derived from our network and stationary advertising platform by the total hours of broadcasting in the cities of our network and stationary advertising platform.

Six Months Ended June 30, 2008 Compared to Six Months Ended June 30, 2007

Total Revenues. Our total revenues increased significantly to US\$33.9 million for the six months ended June 30, 2008 from US\$8.1 million for the six months ended June 30, 2007.

Our advertising service revenues increased significantly to US\$33.4 million for the six months ended June 30, 2008 from US\$7.1 million for the six months ended June 30, 2007. We experienced a significant increase in advertising service revenues as a result of increased sales of advertising time on our mobile digital television advertising network and our stationary advertising platform. We attribute the increase in our advertising service revenues to our enhanced sales and marketing efforts and the growth of our mobile digital television advertising network and stationary advertising platform that in the aggregate covered 16 cities as of June 30, 2008. In addition, we raised our rate cards for our network and stationary advertising platform on November 1, 2007 and May 1, 2008.

Our advertising equipment revenues decreased to US\$0.5 million for the six months ended June 30, 2008 from US\$1.0 million for the six months ended June 30, 2007. We attribute this decrease to the fact that our direct investment entities purchased more digital television displays from us in the first half of 2007 during the initial expansion of their local networks.

Cost of Revenues. Our cost of revenues increased significantly to US\$14.7 million for the six months ended June 30, 2008 from US\$6.1 million for the six months ended June 30, 2007.

Our advertising service cost increased significantly to US\$14.3 million for the six months ended June 30, 2008 from US\$5.3 million for the six months ended June 30, 2007 due to the following reasons:

Our media cost increased significantly to US\$10.9 million for the six months ended June 30, 2008 from US\$4.9 million for the six months ended June 30, 2007. We experienced a significant increase in media cost primarily due to a large increase in the amount of network rental fees paid to our exclusive agency partner companies to secure advertising time. The number of cities operating under our exclusive agency model increased to 12 cities as of June 30, 2008 from four

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cities as of June 30, 2007. We also attribute the increase in our media cost to payments to the subway companies for our stationary advertising platform beginning in May and June 2007 to purchase advertising time on the stationary advertising platform in subway stations in Guangzhou and Shenzhen, respectively.

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Our business tax increased significantly to US\$1.9 million for the six months ended June 30, 2008 from US\$0.3 million for the six months ended June 30, 2007 as a result of the significant increase in our revenues.

Our other costs include salaries and expenses related to installation and maintenance of the displays in our network and increased significantly to US\$1.0 million for the six months ended June 30, 2008 from US\$0.1 million for the six months ended June 30, 2007, primarily due to the expansion of our network into new cities and also in the cities where we already operated.

Our depreciation increased to US\$0.5 million for the six months ended June 30, 2008 from US\$0.03 million for the six months ended June 30, 2007 as a result of the significant increase in the number of digital television displays located in our exclusive agency cities directly owned by us.

Our advertising equipment cost decreased to US\$0.4 million for the six months ended June 30, 2008 from US\$0.8 million for the six months ended June 30, 2007 because we purchased a smaller quantity of digital television displays and other related components in 2008.

Gross Profit. As a result of the foregoing, our gross profit increased to US\$19.2 million for the six months ended June 30, 2008 from US\$1.9 million for the six months ended June 30, 2007. Our gross margin increased to 56.5% for the six months ended June 30, 2008 from 24.1% for the six months ended June 30, 2007. Our gross margin increased primarily due to the fact that the increase in our advertising service revenues outpaced the increase in our cost of revenues because more of our cities operated under the exclusive agency model that sets the media cost according to a predetermined annual network rental fee. In addition, our advertising service revenues accounted for a larger percentage of our total revenues for the six months ended June 30, 2008 compared to the same period in 2007, and we generally achieve a higher gross margin for our advertising service revenues compared to our advertising equipment revenues.

Operating Expenses. Our operating expenses increased significantly to US\$6.4 million for the six months ended June 30, 2008 from US\$1.6 million for the six months ended June 30, 2007.

Selling and Marketing. Selling and marketing expenses increased significantly to US\$4.6 million for the six months ended June 30, 2008 from US\$0.5 million for the six months ended June 30, 2007. Our selling and marketing expenses increased mainly due to a significant expansion of our sales force along with increases in marketing and promotional expenses incurred by our sales force. In particular, our share-based compensation expenses accounted for under selling and marketing expenses increased to US\$0.5 million for the six months ended June 30, 2008 from US\$0.04 million for the six months ended June 30, 2007 in relation to options and restricted shares we granted to incentivize our sales and marketing employees. The number of our selling and marketing employees increased to 276 as of June 30, 2008 from 80 as of June 30, 2007.

General and Administrative. General and administrative expenses increased to US\$1.8 million for the six months ended June 30, 2008 from US\$1.1 million for the six months ended June 30, 2007. Our general and administrative expenses increased mainly due to the increase in the size of our administrative staff to support our growing operations and the increased expenditures associated with being a publicly listed company. Our share-based compensation expenses accounted for under general and marketing expenses increased to US\$0.05 million for the six months ended June 30, 2008 from US\$0.02 million for the six months ended June 30, 2007 in relation to options we granted to incentivize our employees.

Loss from Equity Method Investees. Our loss from equity method investees amounted to US\$0.4 million for the six months ended June 30, 2008 and US\$0.5 million for the six months ended June 30, 2007.

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Operating Profit (Loss). As a result of the foregoing, our operating profit amounted to US\$12.3 million for the six months ended June 30, 2008, compared to an operating loss of US\$0.1 million for the six months ended June 30, 2007.

Interest Income. Our interest income increased to US\$1.7 million for the six months ended June 30, 2008 from US\$0.06 million for the six months ended June 30, 2007, primarily as a result of higher cash and cash equivalent balances provided by the proceeds of our initial public offering received in December 2007 and cash generated from operations.

Income Taxes. We incurred income taxes of US\$0.07 million for the six months ended June 30, 2008 and nil for the six months ended June 30, 2007. We expect our income tax expenses to increase significantly in future periods as our tax holiday as a result of being a culture enterprise expires at the end of 2008.

Net Income (Loss). As a result of the foregoing, our net income amounted to US\$13.9 million for the six months ended June 30, 2008, compared to a net loss of US\$0.1 million for the six months ended June 30, 2007.

Recent Business Developments

Since December 31, 2007, we have expanded and strengthened our mobile digital television advertising network with additional exclusive agency arrangements. In particular, our exclusive agency arrangements with our direct investment entities located in Changchun, Chengdu, Dalian, Ningbo and Wuhan became effective in 2008. We have also expanded our mobile digital television network pursuant to exclusive agency arrangements in Shenyang and Taiyuan. On May 1, 2008, we also expanded our stationary advertising platform in Guangzhou by acquiring the exclusive right to place advertisements on the digital displays located in subway trains as well as digital displays located on subway platforms. Our exclusive agency arrangement with respect to the digital displays on the subway platforms and in the subway trains in Guangzhou does not include sales of advertising time to advertisers from Guangzhou.

We entered into an exclusive contract effective July 1, 2008 and ending on December 31, 2008 with Shanghai Shentong Metro Asset Operation and Management Corporation, the asset management arm of Shanghai Metro, to act as the exclusive advertising agent for two of Shanghai's subway lines.

As a result of these new exclusive agency arrangements, we incurred additional contractual obligations to make minimum payments to the mobile digital television companies over the terms of these contracts. The following table sets forth our total contractual obligations and commercial commitments as of June 30, 2008:

	Total	Less than 1 year	1-3 years (US\$)	3-5 years	More than 5 years
Long-term purchase agreement	169,075,599	25,899,022	54,869,863	36,790,992	51,515,722
Operating lease obligations	1,326,002	517,340	335,755	215,472	257,435
Total contractual obligations	170,401,601	26,416,362	55,205,618	37,006,464	51,773,158

Effective from May 1, 2008, we increased the rate card for all advertising time across our mobile digital television advertising network and stationary advertising platform. In addition, effective from July 1, 2008, we increased the rate card for all advertising time on the displays in the subway platforms in Shenzhen as well as on the five large digital displays in the subway stations in Guangzhou.

Recent Acquisitions

We purchased all of the outstanding equity interests of Peak Win Limited, Century Port Limited, Golden Carriage International Limited, Goldwhite Limited and Aim Sky International Limited pursuant to share

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subscription agreements entered into in April and May 2008 in connection with our acquisition of certain advertising agency businesses in China. These acquisitions broadened our advertising client base and expanded our team with talented industry professionals. Under these share subscription agreements, we have typically agreed to pay a deposit up front. In each of the subsequent three years, we may be obligated to pay an additional amount or be entitled to receive refund of a portion of the deposit, depending on the operating results of the acquired business.

We paid a total of US\$14.4 million in deposits in connection with the acquisitions of these advertising agencies. The final purchase price is based on the operating results of each acquired business over the next three years under the share subscription agreements. Based on the preliminary purchase price allocation, we recorded intangible assets of US\$10.9 million and deferred tax liabilities of US\$2.2 million. After amortization of intangible assets, the carrying value of intangible assets as of June 30, 2008 was US\$10.6 million. Since the final purchase price cannot be determined as of June 30, 2008, we also recorded a contingent consideration of US\$8.7 million.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with the sections entitled Selected Condensed Consolidated Financial Data and Recent Developments and our audited consolidated financial statements and the related notes included elsewhere in this prospectus. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results and the timing of selected events could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under Risk Factors and elsewhere in this prospectus.

Overview

We believe that we operate the largest out-of-home advertising network using real-time mobile digital television broadcasts to deliver content and advertising on mass transportation systems in China based on the number of displays. As of June 30, 2008, our mobile digital television advertising network consists primarily of our digital television displays installed on buses in 16 cities in China. As a supplement to our mobile digital television advertising network, we operate our stationary advertising platform that consists primarily of digital displays in subway stations in Guangzhou, Shanghai (since July 1, 2008) and Shenzhen. Our mobile digital television advertising network and stationary advertising platform, as of June 30, 2008, included over 60,160 digital displays principally located on mass transportation systems throughout China. We derive revenues by selling advertising time on our network and from sales of advertising equipment to our direct investment entities.

We have experienced significant revenues growth, and the size of our network has grown significantly since the commercial launch of our advertising network in 2005. We have expanded our operations through three different types of arrangements that consist of our exclusive agency model, our direct investment model and our outreach agency model.

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

the overall economic growth in China, which we expect to contribute to an increase in advertising spending in major urban areas in China where consumer spending is concentrated;

our ability to establish and maintain business relationships with our local operating partners, and our and their ability to establish and maintain business relationships with mass transportation companies;

our ability to expand our network and stationary advertising platform into new locations and additional cities;

our ability to secure exclusive agency arrangements with mobile digital television companies in additional cities to control the advertising time on that network;

our ability to respond to competitive pressures and to compete effectively when expanding the reach of our network;

our ability to increase sales of advertising time and extend the total minutes available for broadcasting of advertisements across all of our cities;

our ability to attract more revenues from our existing clients and expand our client base through promotion of our services;

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our ability to provide programs that appeal to the local viewers;

our ability to enhance the technology of our network to make our advertising platform more effective; and

our ability to acquire companies that operate advertising businesses complementary to our existing operations.

As an important source of revenues is our advertising service revenues, we focus on factors that directly affect our advertising service revenues such as (i) the total advertising time that we have available across all of our cities, (ii) the actual price we charge for our advertising time and (iii) the programming to advertising

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ratio. The actual price we charge advertising clients, which equals the official list price minus any discounts, for time on our network is affected by, among other things, (i) the overall socioeconomic conditions in each city, (ii) the level of demand for advertising time in each city, and (iii) the perceived effectiveness of our network in achieving the goals of our advertising clients. The effectiveness of our network directly relates to our ability to expand the coverage of our mobile digital television advertising network and our ability to provide programs that draw the attention of viewers. We also measure our performance using an average revenues per hour metric, which we calculate by dividing the advertising service revenues by the total hours of broadcasting in the cities of our network and stationary advertising platform.

As we continue to expand our network, we expect to face a number of challenges. Entering into a new market requires us to develop a contractual relationship with the local television station or its mobile digital television affiliate, so expansion into new cities may require an extended amount of time. To the extent we expand our network beyond mass transportation systems, we may compete directly with other companies that have already occupied many of the most desirable locations in China's major cities. In addition, we must react to continuing technological innovations in our industry and changes in the regulatory environment. In connection with the required compliance with the National Standard for mobile digital television, our direct investment entities and our local operating partners will need to upgrade the digital television displays in their networks to conform to the National Standard. Currently, we cannot accurately estimate the amount and timing of capital expenditures required to migrate to the National Standard. We have implemented a number of measures to address these anticipated challenges: (i) we formed a special team of ten employees and four outside advisors as of December 31, 2007 that focuses on business development and expansion of our network; (ii) our management maintains an active dialogue with the relevant regulatory authorities to stay abreast of new developments and ensure compliance with all current laws and regulations; and (iii) we purchase digital television displays and other related equipment with easily upgradable components to minimize the capital expenditures required to upgrade our network in response to technological or regulatory changes in our industry.

Our Corporate Structure

We commenced operations through CDMTV, a limited liability company established in China on April 8, 2005. CDMTV is currently 70% owned by Limin Li, our co-founder, chairman of our board of directors and our chief executive officer, and 30% owned by Yanqing Liang, our co-founder. Both Limin Li and Yanqing Liang are PRC citizens. CDMTV and its subsidiaries hold the licenses and permits necessary to operate our businesses and provide our advertising services in China.

Our company was incorporated as CDMTV Holding Company in the Cayman Islands on January 27, 2006 by our co-founders, Limin Li and Yanqing Liang. On August 13, 2007, we changed our company's name to VisionChina Media Inc. On March 9, 2006, we established our wholly owned subsidiary, CDTC, in Shenzhen.

Due to PRC regulatory restrictions on foreign investments in the advertising and mobile digital television industries, we operate our advertising business in China through CDMTV. Our relationships with CDMTV and its shareholders are governed by a series of contractual arrangements that allow us to effectively control and derive economic benefits from CDMTV. Accordingly, we treat CDMTV as a variable interest entity and have consolidated its historical financial results in our financial statements in accordance with U.S. GAAP.

On December 6, 2007, our ADSs were listed on the Nasdaq Global Market.

Revenues

We had total revenues of US\$0.3 million, US\$3.9 million and US\$29.4 million for the period from April 8, 2005 (date of inception) to December 31, 2005, for the year ended December 31, 2006 and for the year ended December 31, 2007, respectively. We generate revenues from the sales of advertising time on our mobile digital television advertising network and, starting in 2007, on our stationary advertising platform. We principally derive our advertising service revenues from sales of advertising time between the programs, but

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starting in July 2007, we derive some revenues from soft advertising embedded into the programs on our network. We also generate revenues from sales of our digital television displays to our direct investment entities, which we refer to as our advertising equipment revenues. The following table sets forth a breakdown of our total revenues for the periods indicated.

	For the Period from April 8 to December 31, 2005		For the Year Ended December 31,			
	US\$	% of total revenues	2006		2007	
			US\$	% of total revenues	US\$	% of total revenues
Revenues:						
Advertising service revenues		0.0	2,033,284	52.5	27,489,391	93.5
Advertising equipment revenues	290,521	100.0	1,839,598	47.5	1,896,200	6.5
Total	290,521	100.0	3,872,882	100.0	29,385,591	100

Advertising Service Revenues

We derive the majority of our advertising service revenues from the sales of advertising time between the programs on our mobile digital television advertising network. Starting in 2007, we also generated some of our advertising service revenues from sales of advertising time on our stationary advertising platform, which accounted for 10.7% of our advertising service revenues in 2007. In addition, beginning in July 2007, we began to derive advertising service revenues from sales of soft advertising embedded in the programs on our network, such as advertising in the form of infomercials or product placement. Our advertising service revenues accounted for nil, 52.5% and 93.5% of our total revenues for the period from April 8, 2005 (date of inception) to December 31, 2005, for the year ended December 31, 2006 and for the year ended December 31, 2007, respectively.

Our advertising service revenues are recorded net of any sales discounts from our official list prices that we may provide to our advertising clients. These discounts include volume discounts and other customary incentives offered to our advertising clients, including additional broadcast time for their advertisements if we have unused time available in a particular city and represent the difference between our official list price and the amount we charge our advertising clients. Our advertising clients include advertisers that directly engage in advertisement placements with us and advertising agencies retained by some advertisers to place advertisements on the advertiser's behalf. We expect that our advertising service revenues will become the primary source of our revenues for the foreseeable future.

We typically sign advertising contracts with our advertising clients that require us to place the advertisement on our network in specific cities for a specified period. We recognize revenues as the advertisement airs over the contractual term based on the schedule agreed upon with the customer.

Factors that Affect Our Advertising Service Revenues

Advertising Time. The total advertising time available across all of our cities determines our total capacity and affects our advertising service revenues. Any future expansion of our network or non-broadcast advertising platform into new cities will increase the total advertising time available across all of our cities and affect our advertising service revenues. Geographic expansion of our network or stationary advertising platform also allows us to attract more advertising clients by providing greater geographic coverage and exposure.

Our ability to expand into new cities will affect the total advertising time available across our network and our stationary advertising platform. Our management has implemented certain measures to facilitate our entrance into new markets. We maintain a special team of employees to focus on our network expansion efforts. In conjunction with the members of our management, this team consults

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with prospective partners to develop relationships, secure contractual agreements and assist in the deployment and maintenance of our network.

Actual Price of Advertising Time. The price that we actually charge our clients for our advertising time directly affects our advertising service revenues. The listed prices for advertising time on our network and stationary advertising platform vary significantly from city to city as income levels, standards of living and general economic conditions vary significantly from region to region in China. In accordance with standard industry practice, we offer discounts to our clients on an individual basis, so the actual price we charge for our advertising time after taking into account any discounts will affect our advertising service revenues.

Demand for advertising time on our network and stationary advertising platform. The demand for our advertising time directly affects the actual price of our advertising time and is affected by a variety of factors, including general and economic conditions and certain special events that may cause significant changes in the number of riders in the mass transportation systems of our network cities. Special events, such as the 2008 Summer Olympics in Beijing or the 2010 Asian Games in Guangzhou, may affect our actual price of advertising time. Such special events may draw more viewers to our real-time broadcasts, making our advertising network more effective. Conversely, any adverse events, such as an outbreak of an airborne disease or public safety concerns, may impact usage of mass transportation systems and have an adverse effect on our actual price of advertising time.

Number of displays in each city. The number of displays in each of our cities affects our actual price of advertising time in that city. An increase in the number of displays will reach a larger audience and make advertisements more effective. We expect that our actual price of advertising time will increase as the number of displays increases.

Quality of programs. The quality of the programs broadcast on our network and stationary advertising platform affects our actual price of advertising time. Programs that attract the attention of our audience will make our advertising platform more effective. Our ability to locate, edit and provide suitable programs that appeal to our intended audience will affect our actual price of advertising time. We have undertaken steps to increase the quality of programs broadcast on our network by providing suggestions to the local television stations that provide the programs.

Programming to Advertising Ratio. The mixture of programming to advertising that gets broadcasted on our network and stationary advertising platform affects our advertising service revenues. Broadcasting an optimal mix of advertising and programs will maximize our total revenues.

Maximizing sales of soft advertisements. We began sales of soft advertising in July 2007, and our ability to maximize sales of soft advertisements such as advertisements embedded within the programs and sponsorships of the programs on our network will allow us to realize additional revenues from the time reserved for broadcasts of programs. Increasing our sales of such advertisements is expected to help increase our average revenues per hour.

Advertising Equipment Revenues

We derive a portion of our total revenues from the sales of digital television displays and related equipment to our direct investment entities. We record these revenues as advertising equipment revenues. We source digital television displays and related equipment from third-party suppliers and sell them to our direct investment entities in order to ensure consistent quality of the equipment used in our network and achieve cost efficiency for our direct investment entities. Our advertising equipment revenues represented 100.0%, 47.5% and 6.5% of our total revenues for the period from April 8, 2005 (date of inception) to December 31, 2005, for the year ended December 31, 2006 and for the year ended December 31, 2007, respectively. We generally set the price of our advertising equipment at the unit procurement cost plus an additional markup. Since sales of

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equipment in China require the payment of the value added tax, or VAT, equal to 17%, we record our advertising equipment revenues excluding the VAT payments. We expect that advertising equipment revenues in future periods will decrease as a percentage of our total revenues because we expect our advertising service revenues to grow faster than our advertising equipment revenues.

We recognize advertising equipment revenues upon delivery of the digital television displays and when the risk of ownership has passed to our direct investment entities.

Factors that Affect Our Advertising Equipment Revenues

Addition of New Direct Investment Entities. The addition of new direct investment entities directly affects our advertising equipment revenues. We only sell our digital television displays to our direct investment entities for installation into buses of the city's mass transportation system and other locations. We anticipate higher sales of our digital television displays in the earlier stages of the direct investment entity's operations during the expansion of the mobile digital television network in that city. Accordingly, as the operations of our direct investment entities reach a greater scale, we expect the sales of our digital television displays to decrease.

Network Expansion of Direct Investment Entities. The pace of network expansion at each of our direct investment entities directly affects our advertising equipment revenues. Since the vast majority of our direct investment entities purchase the digital television displays exclusively from us, any expansion of the mobile digital television network will generate advertising equipment revenues for us. In addition, our direct investment entities will need to purchase new digital television displays from us to replace their worn or obsolete equipment.

Cost of Equipment. Since we sell our digital television displays at our procurement cost plus a fixed percentage markup, any changes to the cost of our equipment will directly affect our advertising equipment revenues.

Cost of Revenues

Our cost of revenues consists of costs directly related to the offering of our advertising services and costs related to our sales of advertising equipment. The following table sets forth our cost of revenues, divided into its major components, by amount and percentage of our total revenues for the periods indicated.

	For the Period from April 8 to December 31, 2005		For the Year Ended December 31,			
	US\$	% of total revenues	2006		2007	
			US\$	% of total revenues	US\$	% of total revenues
Total Revenues	290,521	100.0	3,872,882	100.0	29,385,591	100.0
Cost of revenues:						
Advertising service cost		0.0	3,967,081	102.4	12,801,957	43.6
Advertising equipment cost	261,504	90.0	1,639,895	42.3	1,583,325	5.4
Total cost of revenues	261,504	90.0	5,606,976	144.7	14,385,282	49.0
Gross profit (loss)	29,017	10.0	(1,734,094)	(44.7)	15,000,309	51.0

Advertising Service Cost

Our cost of revenues related to the offering of our advertising services consists of media costs, depreciation, business taxes and surcharges and other operating costs.

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Media Costs. Our media costs represented the largest component of our cost of revenues and accounted for approximately nil, 98.4% and 37.2% of our total revenues for the period from April 8, 2005 (date of inception) to December 31, 2005, for the year ended December 31, 2006 and for the year ended December 31, 2007, respectively. Our media costs primarily consist of:

network rental fee payments to our exclusive agency partner companies under our contractual arrangements to control the advertising time on that network;

payments to our direct investment entities under our contractual arrangements to purchase advertising time;

payments to mobile digital television companies outside of our network, either directly or through third-party advertising agencies, to purchase advertising time pursuant to the requests of our advertisers; and

beginning in 2007, payments to subway companies for our stationary advertising platform pursuant to our agreements to control all of the advertising time on the digital displays located in subway stations.

The primary factors affecting our media costs include the number of exclusive agency cities that we have and the amount of advertising time that we purchase from our direct investment entities and other mobile digital television companies outside of our network.

The number of exclusive agency cities represents the largest factor affecting our media costs. When we enter into an exclusive agency arrangement with a mobile digital television company, we typically commit to a predetermined annual network rental fee in exchange for the exclusive right to place advertisements on all of the time available for advertisements on that network. We expect the number of our exclusive agency cities to increase in future periods as we enter into exclusive agency arrangements with our direct investment entities and with additional mobile digital television companies in new cities. As a result, we expect our network rental fees to increase in future periods, but we expect media costs to decrease as a percentage of our total revenues because we expect our advertising revenues to grow faster than our media costs.

The amount of advertising time that we purchase from our direct investment entities and other mobile digital television companies outside of our network also affect our media costs. For our direct investment entities without exclusive agency agreements, we purchase advertising time according to our needs to place advertisements on behalf of our clients. For the mobile digital television companies outside of our network, we purchase time at the request of our advertising clients to place advertisements in that city.

Depreciation. Depreciation for our digital television displays accounted for nil, 0.3% and 0.7% of our total revenues for the period from April 8, 2005 (date of inception) to December 31, 2005, for the year ended December 31, 2006 and for the year ended December 31, 2007, respectively. Our depreciation cost only consists of depreciation for the displays directly owned by us and not the displays owned by our direct investment entities. Generally, we capitalize the acquisition cost of our digital television displays and recognize depreciation on a straight-line basis over the term of their useful lives, which we estimate to be five years. The primary factors affecting our depreciation include the number of digital television displays in our network, the unit cost of each of our displays and the remaining useful life of our displays. We expect our depreciation to increase in future periods as a result of expanding our network by adding more displays.

Business Taxes and Surcharges. Our business taxes and surcharges accounted for nil, 1.0% and 4.0% of our total revenues for the period from April 8, 2005 (date of inception) to December 31, 2005, for the year ended December 31, 2006 and for the year ended December 31, 2007, respectively. Business taxes and surcharges include the 5% business tax and 3% surcharges that our PRC operating subsidiary must pay for revenues earned from advertising services provided in China.

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Other Operating Costs. Our other operating costs primarily consist of salaries and other expenses in relation to the maintenance, development and expansion of our network and accounted for nil, 2.7% and 1.7% of our total revenues for the period from April 8, 2005 (date of inception) to December 31, 2005, for the year ended December 31, 2006 and for the year ended December 31, 2007, respectively. We expect our other operating costs to increase in future periods as we expand our network in the cities where we already operate and into new cities. However, we expect our other operating costs to increase in future periods but remain a relatively small percentage of total revenues.

Advertising Equipment Cost

Our advertising equipment cost consists of the amounts we pay to our third-party suppliers for the digital television displays and other related equipment that we sell to our direct investment entities. Our advertising equipment cost accounted for 90.0%, 42.3% and 5.4% of our total revenues for the period from April 8, 2005 (date of inception) to December 31, 2005, for the year ended December 31, 2006 and for the year ended December 31, 2007, respectively. The major factors affecting our advertising equipment cost include the number of digital television displays we sell and the unit cost that we pay for the assembly of each display.

Other Factors Affecting Our Results of Operations

In addition to the factors discussed above, our reported results are also affected by the fluctuations in the value of the Renminbi against the U.S. dollar because our reporting currency is the U.S. dollar while the functional currency of our subsidiary and affiliated consolidated entities in China, which operate substantially all of our business, is the Renminbi. In 2007, 2006 and 2005, the Renminbi appreciated against the U.S. dollar by approximately 6.5%, 3.3% and 2.5%, respectively. The appreciation of the Renminbi against the U.S. dollar contributed to the increase in our net income reported in U.S. dollar terms in 2005, 2006 and 2007, respectively. For additional information relating to the fluctuations in the value of the Renminbi against the U.S. dollar, see Exchange Rate Information, Risk Factors Risks Related to Doing Business in China Fluctuations in exchange rates of the Renminbi could materially affect our reported results of operations and Quantitative and Qualitative Disclosure About Market Risk Foreign Exchange Risk.

Operating Expenses

Our operating expenses consist of selling and marketing expenses and general and administrative expenses. The following table sets forth our operating expenses, divided into their major categories by amount and as a percentage of total revenues for the periods indicated.

	For the Period from April 8 to December 31, 2005		For the year ended December 31,			
	US\$	% of total revenues	2006		2007	
			US\$	% of total revenues	US\$	% of total revenues
Total revenues	290,521	100.0	3,872,882	100.0	29,385,591	100.0
Gross profit (loss)	29,017	10.0	(1,734,094)	(44.7)	15,000,309	51.0
Operating expenses:						
Selling and marketing	12,941	4.5	393,474	10.2	2,149,067	7.3
General and administrative	373,274	128.5	1,673,817	43.2	2,949,509	10.0
Total operating expenses	386,215	133.0	2,067,291	53.4	5,098,576	17.3

Selling and Marketing. Our selling and marketing expenses primarily consist of salaries and benefits for our sales staff, marketing and promotional expenses and other costs related to supporting our sales force. Selling and marketing expenses accounted for 4.5%, 10.2% and 7.3% of our total revenues for the period from April 8, 2005 (date of inception) to December 31, 2005, for the year ended December 31, 2006 and for the year

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ended December 31, 2007, respectively. We increased our sales force to 120 employees as of December 31, 2007 from 59 employees as of December 31, 2006 and three employees as of December 31, 2005, which resulted in a significant increase in salary expenses. We expect selling and marketing expenses in future periods to increase as operations grow.

General and Administrative. Our general and administrative expenses primarily consist of salaries and benefits for management, accounting and administrative personnel, office rentals, depreciation of office equipment, professional service fees, maintenance, utilities and other office expenses. General and administrative expenses accounted for 128.5%, 43.2% and 10.0% of our total revenues for the period from April 8, 2005 (date of inception) to December 31, 2005, for the year ended December 31, 2006 and for the year ended December 31, 2007, respectively. We expect that our general and administrative expenses will increase in future periods as we hire additional personnel and incur additional costs in connection with the expansion of our business and with being a publicly traded company.

Share-Based Compensation

Our share-based compensation expenses represent the compensation expenses recognized in relation to the share options granted to our employees and consultants. We allocate our share-based compensation expenses to cost of revenues, general and administrative expenses or selling and marketing expenses, depending on role of the person receiving the options under our 2006 Share Incentive Plan, or the 2006 Plan. We have reserved 7,000,000 common shares for issuance under the 2006 Plan. As of December 31, 2007, there were 4,838,359 share option outstanding to employees and consultants. Our total share-based compensation expenses accounted for nil, 2.0% and 0.8% of our total revenues for the period from April 8, 2005 (date of inception) to December 31, 2005, for the year ended December 31, 2006 and for the year ended December 31, 2007, respectively. We expect our share-based compensation expenses to increase in future periods as a result of further issuances of options to employees and consultants.

Loss from Equity Method Investees

Our equity investments primarily consist of our investments in our nine direct investment entities that we account for using the equity method as of December 31, 2007. We expect our loss from our existing equity method investees to decrease as they finish building their networks and begin generating more revenues.

We generate advertising service revenues by sales of advertising time on our mobile digital television advertising network, which are partly provided by our equity method investees. We also closely monitor the operating activities of the equity method investees financially. As the operations of our equity method investees form an integral part to our operating activities, our share of undistributed earnings or losses of these entities are classified as part of our operating income.

Critical Accounting Policies

We prepare our consolidated financial statements in accordance with U.S. GAAP, which requires us to make judgments, estimates and assumptions that affect: (i) the reported amounts of our assets and liabilities; (ii) the disclosure of our contingent assets and liabilities at the end of each reporting period; and (iii) the reported amounts of revenues and expenses during each reporting period. We continually evaluate these estimates based on our own historical experience, knowledge and assessment of current business and other conditions, our expectations regarding the future based on available information and reasonable assumptions, which together form our basis for making judgments about matters that are not readily apparent from other sources. Since the use of estimates is an integral component of the financial reporting process, our actual results could differ from those estimates.

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We believe that any reasonable deviation from those judgments and estimates would not have a material impact on our financial condition or results of operations. To the extent that the estimates used differ from actual results, however, adjustments to the statement of operations and corresponding balance sheet accounts would be necessary. These adjustments would be made in future financial statements.

When reading our financial statements, you should consider: (i) our critical accounting policies; (ii) the judgment and other uncertainties affecting the application of such policies; and (iii) the sensitivity of reported results to changes in conditions and assumptions. We believe the following accounting policies involve the most significant judgment and estimates used in the preparation of our financial statements.

Income taxes

We recognize deferred income taxes 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.

We record a valuation allowance to reduce deferred tax assets to the value we believe is more likely than not to be realized. In the event we were to determine that we would be able to realize our deferred tax assets in the future in excess of their recorded amount, an adjustment to our valuation allowance would increase our income in the period such determination was made. Likewise, if we determine that we would not be able to realize all or part of our net deferred tax assets in the future, an adjustment to our valuation allowance would be charged to our income in the period such determination is made. Current income taxes are provided for in accordance with the laws of the relevant taxing authorities.

Share-based compensation

On December 8, 2006, we adopted the 2006 share incentive plan that allows us to offer a variety of incentive awards to our employees and consultants. For options granted to employees, share-based payments are measured based on the fair values of share options on the grant date and are generally recognized as compensation expense over the requisite service periods with a corresponding addition to paid-in capital. Share awards issued to consultants are measured at fair value at the commitment date and recognized over the period the service is provided.

We have granted options to our employees and consultants as determined by our board of directors on the date of grant. For purposes of financial accounting, we have determined the values of the shares underlying our options by reference to transactions with third parties and by applying a blended income and market value approach to arrive at the fair values for the shares underlying our options. In the case of the options granted on December 8, 2006, July 6, 2007, August 30, 2007 and October 31, 2007, the fair value is the per share value of our common shares determined by us, with the assistance of an independent third-party valuation specialist, solely for the purpose of financial accounting for employee share-based compensation.

Determining the fair value of our common shares underlying the options granted on December 8, 2006, July 6, 2007, August 30, 2007 and October 31, 2007 required us to make complex and subjective judgments regarding projected financial and operating results, our unique business risks, the liquidity of our shares and our operating history and prospects at the time of grant. We used the income approach in conjunction with the market value approach by assigning a different weight to each of the approaches to estimate the enterprise value of our company when the option was granted. The income approach involves applying appropriate discount rates to estimated cash flows that are based on earnings forecasts. The assumptions used in deriving the fair value of our common shares are consistent with our business plan. These assumptions include: no material changes in the existing political, legal, fiscal and economic conditions in China; our ability to recruit

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and retain competent management, key personnel and technical staff to support our ongoing operation; and no material deviation in industry trends and market conditions from economic forecasts. These assumptions are inherently uncertain. The risks associated with achieving our forecasts were assessed in selecting the appropriate discount rates. If different discount rates had been used, the valuations would have been different and the amount of share-based compensation would also have been different because the fair value of the underlying common shares for the options granted would be different.

For options granted on each grant date, we used the option-pricing method to allocate equity value to the preferred and the common shares, taking into account the guidance prescribed by the AICPA Audit and Accounting Practice Aid Valuation of Privately-Held-Company Equity Securities Issued as Compensation. The option-pricing method involves making estimates of the anticipated timing of a potential liquidity event such as a sale of our company or an initial public offering and estimates of the volatility of our equity securities. The anticipated timing is based on the plans of our board and management. Estimating the volatility of the share price of a privately held company is complex because there is no readily available market for the shares. We estimated the volatility of our shares to range from 31.4% to 36.1%. Had we used different estimates of volatility, the allocations between preferred and common shares would have been different.

From April 8, 2005 (date of inception) to December 31, 2007, we granted the following options to our employees and consultants:

	Options Granted	Weighted- Average Exercise Price	Fair value of common shares	Weighted- Average Fair Value of Options	Type of valuation
December 8, 2006	1,894,000	0.86	0.60	0.19	(1)
April 6, 2007	800,739	1.90	1.52	0.22	(2)
May 16, 2007	200,000	1.84	1.52	0.33	(2)
July 6, 2007	1,230,000	3.545	1.78	0.04	(1)
August 30, 2007	1,005,900	6.545	2.71	0.07	(1)
October 31, 2007	760,000	6.545	6.31	1.30	(1)

(1) By a contemporaneous valuation by a third party valuation specialist.

(2) Based on the price of the Series B preferred shares that we issued and sold to third parties for cash.

For share options granted on December 8, 2006, July 7, 2007, August 30, 2007 and October 31, 2007, we used a combination of the income approach, also known as the discounted cash flow, or DCF, approach, and the market approach to assess the fair value of our common shares underlying the options granted on a contemporaneous basis.

The major assumptions used by us in calculating the fair value of common shares were as follows:

Weight of DCF and market multiples: We assigned 70% weight to the DCF approach and 30% weight to the market multiples approach because we had achieved visibility of future earnings at the time, which made the DCF approach more meaningful.

Weighted average costs of capital, or WACC: We used an estimated WACC of 19.5% for the December 8, 2006 grants, 25% for the July 6, 2007 and August 30, 2007 grants and 20% for the October 31, 2007 grants, which was the combined result of the risk-free rate and our company-specific risk when we continued to grow and meet important milestones.

Capital market valuation multiples: We obtained and assessed the then updated capital market valuation data of comparable Chinese and international advertising companies such as Focus Media Holding Limited, Clear Channel Outdoor Holdings Inc., JC Decaux SA, Primedia Limited, Clear Media and Xinhua Finance Media Limited.

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Discount for lack of marketability: We used a 15% discount rate for December 8, 2006 grants, 5% for the July 6, 2007 and August 30, 2007 grants and 3% for October 31, 2007 grants for lack of marketability of our common shares.

For the options granted in April and May 2007, management performed valuation to assess the fair value of our common shares underlying the options granted based on the price of the Series B preferred shares that we issued and sold to third parties for cash in March 2007. Series B preferred shares were issued to several institutional investors in March 2007 for cash at a price determined based on the agreed enterprise value of our company. As the transaction was carried out between unrelated parties at arm's length basis, we believe that the negotiated equity value represents the fair enterprise value of our company. We used an option-pricing model to allocate the total enterprise value of our company to preferred and common shares.

In addition, we estimate our expected forfeiture rate and recognize expense only for those options that are expected to vest. These estimations are based on past employee retention rates and our expectations of future retention rates. As our operating history is limited, we will prospectively revise our forfeiture rates based on actual history. Our compensation expense may change based on changes to our actual forfeitures.

Changes in these assumptions could significantly affect the amount of employee share-based compensation expense we recognize in our consolidated financial statements.

Taxation

We are a tax exempted company incorporated in the Cayman Islands and conduct substantially all of our business through our PRC subsidiary, CDTC and our PRC variable interest entity, CDMTV. Both of our PRC entities must pay business taxes and surcharges on revenues generated from advertising services and value added taxes on sales of our advertising equipment, and we account for the business taxes and surcharges under cost of revenues. Our PRC entities must also pay the enterprise income tax, or EIT, on their taxable income at the applicable tax rate, except for certain PRC entities that qualify for preferential tax rates.

Before the EIT Law and its implementation regulations became effective on January 1, 2008, as an enterprise located in the Shenzhen Special Economic Zone, both CDMTV and CDTC were allowed to enjoy a preferential EIT rate of 15%. In addition, since CDMTV has been recognized as a culture enterprise, CDMTV receives a full exemption from the EIT from 2005 to 2008.

Under the EIT Law, effective since January 1, 2008, China has adopted a uniform tax rate of 25% for all enterprises (including foreign-invested enterprises) and revoked the current tax exemption, reduction and preferential treatments applicable to foreign-invested enterprises. However, there will be a transition period for enterprises, whether foreign-invested or domestic, that are currently receiving preferential tax treatments granted by relevant tax authorities. Enterprises that were subject to an enterprise income tax rate lower than 25% prior to January 1, 2008 may continue to enjoy the lower rate and gradually transition to the new tax rate within five years after the effective date of the EIT Law. Enterprises that are currently entitled to exemptions or reductions from the standard income tax rate for a fixed term may continue to enjoy such treatment until the fixed term expires. However, if a foreign-invested enterprise had not become profitable by the end of December 2007, a two-year exemption from enterprise income tax will be granted for the period between the time the enterprise becomes profitable and December 31, 2009. According to the implementation regulations, during the transition period, the EIT rate of CDTC is 18%, 20%, 22%, 24% and 25% in the year of 2008, 2009, 2010, 2011 and 2012, respectively, and the EIT rate of CDMTV is 0%, 20%, 22%, 24% and 25% in the year of 2008, 2009, 2010, 2011 and 2012, respectively. As a result, we expect our income tax expense to increase in future years compared to our historical periods. Preferential tax treatments will continue to be granted to industries and projects that are strongly supported and encouraged by the state, and enterprises otherwise classified as new and high technology enterprises strongly supported by the state will be entitled to a 15% enterprise income tax rate.

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The EIT Law also provides that enterprises established outside of China whose de facto management bodies are located in China are considered resident enterprises, and will generally be subject to the uniform 25% enterprise income tax rate as to their worldwide income, including income received from subsidiaries and consolidated affiliates. Under the Implementation Rules of the PRC Enterprise Income Tax Law, a de facto management body is defined as a body that has material and overall management and control over manufacturing and business operations, personnel and human resources, finances and treasury, and acquisition and disposition of properties and other assets of an enterprise. If we are treated as a resident enterprise for PRC tax purposes, we will be subject to PRC tax on our worldwide income at the 25% tax rate, which would have an impact on our effective tax rate.

Furthermore, unlike the Income Tax Law for Enterprises with Foreign Investment and Foreign Enterprises that was replaced by the EIT Law, which specifically exempts withholding tax on any dividends payable to non-PRC investors, the EIT Law and implementation regulations provides that an income tax rate of 10% is normally applicable to dividends payable to non-PRC investors which are derived from sources within China, although such income tax may be exempted or reduced by the State Council of the PRC or pursuant to a tax treaty between China and the jurisdictions in which our non-PRC shareholders reside. We are a Cayman Islands holding company and substantially all of our income may be derived from dividends we receive from our operating subsidiary and consolidated affiliates established in China. If we declare dividends from such income, it may be deemed to be derived from sources within China under the EIT Law and be subject to income tax under the EIT Law. If we are required under the EIT Law to pay income tax for any dividends we received from our subsidiary in China, your investment in us may be materially and adversely affected. In addition, it is unclear whether dividends paid to our non-PRC shareholders and ADS holders or any capital gains from the transfer of our common shares or ADSs, would be treated as income derived from sources within the PRC and subject to PRC tax. If we are required under the EIT Law to withhold PRC income tax on dividends payable to our non-PRC investors that are non-resident enterprises or if you are required to pay PRC income tax on the transfer of our common shares or ADSs, the value of your investment may be materially and adversely affected.

Table of Contents**Selected Quarterly Results of Operations**

The following tables present certain unaudited consolidated quarterly financial data for each of the six quarters in the period from January 1, 2007 to June 30, 2008. You should read the following table in conjunction with our audited financial statements and related notes included elsewhere in this prospectus. We have prepared the unaudited consolidated quarterly financial information on substantially the same basis as our audited consolidated financial statements. The unaudited consolidated financial information includes all adjustments, consisting only of normal recurring adjustments, that we consider necessary for a fair presentation of our financial position and operating results for the quarters presented. Our operating results for any quarter are not necessarily indicative of results that may be expected for any future period.

	March 31, 2007	June 30, 2007	For Three Months Ended, September 30, December 31, 2007 2007		March 31, 2008	June 30, 2008
	(US\$, in thousands)					
Consolidated Statement of						
Operations Data:						
Revenues						
Advertising service revenues	3,105	3,990	8,707	11,687	13,229	20,165
Advertising equipment revenues	265	702	604	325	403	124
Total revenues	3,370	4,692	9,311	12,012	13,632	20,289
Cost of revenues						
Advertising service cost	(2,569)	(2,757)	(3,365)	(4,111)	(6,050)	(8,257)
Advertising equipment cost	(219)	(573)	(516)	(275)	(333)	(108)
Total cost of revenues	(2,788)	(3,330)	(3,881)	(4,386)	(6,383)	(8,365)
Gross profit	582	1,362	5,430	7,626	7,249	11,924
Operating expenses						
Selling and marketing	(177)	(320)	(718)	(934)	(1,620)	(2,987)
General and administrative	(553)	(518)	(680)	(1,198)	(817)	(991)
Total operating expenses	(730)	(838)	(1,398)	(2,132)	(2,437)	(3,978)
Loss from equity method investees	(202)	(289)	(290)	(482)	(269)	(173)
Operating profit (loss)	(350)	235	3,742	5,012	4,543	7,773
Interest income	14	44	39	409	918	733
Other expenses	(27)	(8)	(27)	(32)	(17)	(2)
Net income (loss) before income taxes	(363)	271	3,754	5,389	5,444	8,504
Income tax credit (expense)				332	(41)	(32)
Net income (loss) after income taxes	(363)	271	3,754	5,721	5,403	8,472
Minority interest				11	19	22
Net income (loss)	(363)	271	3,754	5,732	5,422	8,494
Share-based compensation expenses during the related periods included in:						
Cost of revenues	7	7	8	11	11	9
Selling and marketing expenses	3	41	23	69	136	347

General and administrative expenses	7	11	14	19	18	37
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The following table sets forth a summary, for the periods indicated, of our consolidated results of operations. Our historical results presented below are not necessarily indicative of the results that may be expected for any future period.

	For the Period from April 8, 2005 to December 31, 2005	For the Year Ended December 31,	
		2006	2007
	(US\$, except number of shares)		
Condensed Consolidated Statement of Operations Data			
Revenues			
Advertising service revenues		2,033,284	27,489,391
Advertising equipment revenues	290,521	1,839,598	1,896,200
Total revenues	290,521	3,872,882	29,385,591
Cost of revenues			
Advertising service cost		3,967,081	12,801,957
Advertising equipment cost	261,504	1,639,895	1,583,325
Total cost of revenues	261,504	5,606,976	14,385,282
Gross profit (loss)	29,017	(1,734,094)	15,000,309
Operating expenses			
Government grant		125,953	
Loss from equity method investees	(104,475)	(469,841)	(1,262,273)
Operating profit (loss)	(461,673)	(4,145,273)	8,639,460
Interest income	45,264	98,873	505,888
Other expenses		(22,608)	(95,719)
Net income (loss) before income taxes	(416,409)	(4,069,008)	9,049,629
Income tax credit			332,386
Net income (loss) after income taxes	(416,409)	(4,069,008)	9,382,015
Minority interest			11,343
Net income (loss)	(416,409)	(4,069,008)	9,393,358
Deemed dividend on convertible redeemable preferred shares		1,583,333	6,625,262
Net income (loss) attributable to holders of common shares	(416,409)	(5,652,341)	2,768,096
Net (loss) per common share:			
Basic	(0.02)	(0.26)	0.11
Diluted	(0.02)	(0.26)	0.11
Shares used in computation of net income (loss) per share:			
Basic	22,000,000	22,000,000	24,709,522
Diluted	22,000,000	22,000,000	25,771,702
Share-based compensation expenses during the related periods included in:			
Cost of revenues		37,576	34,431
Selling and marketing expenses		5,374	135,722

General and administrative expenses	35,802	51,209
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Year Ended December 31, 2007 Compared to Year Ended December 31, 2006

Total Revenues. Our total revenues increased significantly to US\$29.4 million in 2007 from US\$3.9 million in 2006.

Our advertising service revenues increased significantly to US\$27.5 million in 2007 from US\$2.0 million in 2006. We experienced a significant increase in advertising service revenues primarily as a result of increased sales of advertising time on our mobile digital television advertising network. To a lesser extent, our advertising service revenues also increased due to sales of advertising time on our stationary advertising platform that commenced operations in May 2007. Our stationary advertising platform accounted for approximately 10.7% of our advertising service revenues in 2007. We also attribute the increase in our advertisement service revenues to the growth of our network to 14 cities as of December 31, 2007 from nine cities as of December 31, 2006. We expect our advertising service revenues from our mobile digital television advertising network and our stationary advertising platform to increase in future periods as our network further penetrates the out-of-home advertising market.

Our advertising equipment revenues were US\$1.8 million and US\$1.9 million in 2006 and 2007, respectively. We expect our advertising equipment revenues in future periods to decrease as a percentage of our total revenues as our existing direct investment entities finish the initial expansion of their local networks and scale back their purchases of digital television displays and related equipment from us. While we still plan to increase the number of our direct investment entities in future periods, we expect our advertising service revenues to grow faster than our advertising equipment revenues.

Cost of Revenues. Our cost of revenues increased significantly to US\$14.4 million in 2007 from US\$5.6 million in 2006.

Our advertising service cost increased significantly to US\$12.8 million in 2007 from US\$4.0 million in 2006 due to the following reasons:

Our media cost increased significantly to US\$10.9 million in 2007 from US\$3.8 million in 2006. We experienced a significant increase in media cost primarily due to a large increase in the amount of network rental fees paid to our exclusive agency partner companies to secure advertising time. Our network rental fees for our exclusive agency cities increased significantly to US\$10.0 million in 2007 from US\$3.6 million in 2006. The number of cities operating under our exclusive agency model increased to five cities as of December 31, 2007 from one city as of December 31, 2006. To a lesser extent, we also attribute the increase in our media cost to (i) increased demand for advertising time in cities operating under our direct investment and outreach agency models that require us to purchase the advertising time from the local mobile digital television network operating in that city, and (ii) payments to the subway companies for our stationary advertising platform beginning in May 2007 to purchase advertising time on the stationary advertising platform in that city.

Our business tax increased to US\$1.2 million in 2007 from US\$0.04 million in 2006 as a result of the increase in our revenues.

Our other costs include salaries and expenses related to installation and maintenance of the displays in our network and increased to US\$0.5 million in 2007 from US\$0.1 million in 2006, primarily due to the expansion of our network into new cities and in the cities where we already operated.

Our depreciation increased to US\$0.2 million in 2007 from US\$0.01 million in 2006 as a result of the increase in the number of digital television displays located in our exclusive agency cities.

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Our advertising equipment cost was US\$1.6 million in 2007 compared to US\$1.6 million in 2006.

Gross Profit (Loss). As a result of the foregoing, our gross profit was US\$15.0 million in 2007 compared to a gross loss of US\$1.7 million in 2006. Our gross margin increased to 51.0% in 2007 from negative 44.8% in 2006. Our gross margin increased primarily due to the fact that the increase in our total revenues outpaced the increase in our cost of revenues. In addition, our advertising service revenues accounted for a larger percentage of our total revenues in 2007 compared to the same period in 2006, and we recognized a higher gross margin for our advertising service revenues compared to our advertising equipment revenues in 2007.

Operating Expenses. Our operating expenses increased significantly to US\$5.1 million in 2007 from US\$2.1 million in 2006.

Selling and Marketing. Selling and marketing expenses increased significantly to US\$2.1 million in 2007 from US\$0.4 million in 2006. Our selling and marketing expenses increased mainly due to expansion of our sales force along with increases in marketing and promotional expenses incurred by our sales force. The number of our selling and marketing employees increased to 120 as of December 31, 2007 from 59 as of December 31, 2006. Our share-based compensation expenses accounted for under selling and marketing expenses increased to US\$135,722 in 2007 from US\$5,374 in 2006 in relation to options we granted to incentivize our sales and marketing employees.

General and Administrative. General and administrative expenses increased to US\$2.9 million in 2007 from US\$1.7 million in 2006. Our general and administrative expenses increased mainly due to the increase in the size of our administrative staff to support our growing operations and the incremental expenditures associated with our initial public offering. Our share-based compensation expenses accounted for under general and administrative expenses increased to US\$51,201 in 2007 from US\$35,802 in 2006 in relation to options we granted to incentivize our employees.

Loss from Equity Method Investees. Our loss from equity method investees increased to US\$1.3 million in 2007 from US\$0.5 million in 2006. We experienced an increase in our loss from equity method investees as a result of (i) an increase in the number of equity method investees to nine as of December 31, 2007 from four as of December 31, 2006 and (ii) the continued expansion of the local networks of our equity method investees. We expect the loss from our existing equity method investees to decrease in future periods as they finish the initial expansion of their local networks and begin to generate advertising service revenues.

Operating Profit (Loss). As a result of the foregoing, our operating profit amounted to US\$8.6 million in 2007 as compared to an operating loss of US\$4.1 million in 2006.

Interest Income. Our interest income increased to US\$0.5 million in 2007 from US\$0.1 million in 2006, primarily as a result of higher cash and cash equivalent balances provided by our financing activities. In April 2006, we received US\$14.3 million gross proceeds from the issuance of Series A convertible preferred shares. In March and July 2007, we received an aggregate of US\$40 million gross proceeds from the issuance of Series B convertible preferred shares. In December 2007, we received an aggregate of US\$100.4 million gross proceeds from our initial public offering.

Other Expenses. Our other expenses increased to US\$0.1 million in 2007 from US\$0.02 million in 2006 primarily as a result of exchange rate losses we incurred due to appreciation of the Renminbi against the U.S. dollar.

Income Taxes. We recognized an income tax benefit of US\$0.3 million in 2007, primarily attributable to previous losses carried forward.

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Minority Interest. Our minority interest was US\$0.01 million in 2007 as a result of the establishment of a new direct investment entity, Guangzhou Jiaojian Multimedia Information Technology Co. Ltd., in 2007.

Net Income (Loss). As a result of the foregoing, our net income amounted to US\$9.4 million in 2007 as compared to a net loss of US\$4.1 million in 2006.

Year Ended December 31, 2006 Compared to the Period from April 8, 2005 (date of inception) to December 31, 2005

The financial results discussed below are not comparable on an equal basis because we were founded on April 8, 2005 and had our first full year of operations in 2006. Our network consisted of 16,809 digital television displays as of December 31, 2006 and 667 digital television displays as of December 31, 2005.

Total Revenues. Our total revenues amounted to US\$3.9 million for the year ended December 31, 2006 and US\$0.3 million for the period from April 8, 2005 (date of inception) to December 31, 2005.

Our advertising service revenues amounted to US\$2.0 million for the year ended December 31, 2006 and nil for the period from April 8, 2005 (date of inception) to December 31, 2005. Our advertising service revenues increased in 2006 as we only began recognizing advertising revenues in 2006.

Our advertising equipment revenues amounted to US\$1.8 million in 2006 and US\$0.3 million for the period from April 8, 2005 (date of inception) to December 31, 2005. Our advertising equipment revenues increased because the number of our direct investment entities increased to eight as of December 31, 2006 from three as of December 31, 2005, and as part of their expansion, our direct investment entities purchased more digital television displays and related equipment from us.

Cost of Revenues. Our cost of revenues amounted to US\$5.6 million in 2006 and US\$0.3 million for the period from April 8, 2005 (date of inception) to December 31, 2005.

Our advertising service cost amounted to US\$4.0 million for the year ended December 31, 2006 and nil for the period from April 8, 2005 (date of inception) to December 31, 2005.

Our media cost amounted to US\$3.8 million for the year ended December 31, 2006 and nil for the period from April 8, 2005 (date of inception) to December 31, 2005. We began to incur media cost in 2006 after we entered into our first exclusive agency agreement in 2006. In addition, we purchased advertising time from our direct investment entities and from other mobile digital television stations in 2006 through our outreach agency model.

Our depreciation amounted to US\$12,606 for the year ended December 31, 2006 and nil for the period from April 8, 2005 (date of inception) to December 31, 2005. Our depreciation increased in 2006 as the number of digital television displays in our network increased to 16,809 as of December 31, 2006 from 667 as of December 31, 2005.

Our business taxes and surcharges amounted to US\$39,940 for the year ended December 31, 2006 and nil for the period from April 8, 2005 (date of inception) to December 31, 2005.

Our other costs include salaries and expenses related to installation and maintenance of the digital television displays in our network and amounted to US\$0.1 million for the year ended December 31, 2006 and nil for the period from April 8, 2005 (date of inception) to December 31, 2005.

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Our advertising equipment cost amounted to US\$1.6 million for the year ended December 31, 2006 and US\$0.3 million for the period from April 8, 2005 (date of inception) to December 31, 2005. Our advertising equipment cost increased in 2006 as we purchased more digital television displays from our suppliers for resale to our direct investment entities.

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Gross Profit (Loss). As a result of the foregoing, our gross loss amounted to US\$1.7 million for the year ended December 31, 2006, and our gross profit amounted to US\$29,017 for the period from April 8, 2005 (date of inception) to December 31, 2005.

Operating Expenses. Our operating expenses amounted to US\$2.1 million for the year ended December 31, 2006 and US\$0.4 million for the period from April 8, 2005 (date of inception) to December 31, 2005. The number of our employees increased to 92 as of December 31, 2006 from 17 as of December 31, 2005.

Selling and Marketing. Selling and marketing expenses amounted to US\$393,474 for the year ended December 31, 2006 and US\$12,941 for the period from April 8, 2005 (date of inception) to December 31, 2005. Our share-based compensation expenses accounted for under selling and marketing expenses increased to US\$5,374 in 2006 from nil for the period from April 8, 2005 (date of inception) to December 31, 2005 in relation to options we granted to incentivize our sales and marketing employees.

General and Administrative. General and administrative expenses amounted to US\$1.7 million for the year ended December 31, 2006 and US\$0.4 million for the period from April 8, 2005 (date of inception) to December 31, 2005. Our share-based compensation expenses accounted for under general and marketing expenses increased to US\$35,802 in 2006 from nil for the period from April 8, 2005 (date of inception) to December 31, 2005 in relation to options we granted to incentivize our employees.

Government Grant. Our government grant amounted to US\$125,953 for the year ended December 31, 2006 and nil for the period from April 8, 2005 (date of inception) to December 31, 2005.

Loss from Equity Method Investees. Our loss from equity method investees amounted to US\$469,841 for the year ended December 31, 2006 and US\$104,475 for the period from April 8, 2005 (date of inception) to December 31, 2005.

Operating Loss. As a result of the foregoing, our operating loss amounted to US\$4.1 million for the year ended December 31, 2006 and US\$0.5 million for the period from April 8, 2005 (date of inception) to December 31, 2005.

Interest Income. Our interest income amounted to US\$98,873 for the year ended December 31, 2006 and US\$45,264 for the period from April 8, 2005 (date of inception) to December 31, 2005.

Other Expenses. Our other expenses amounted to US\$22,608 for the year ended December 31, 2006. We did not incur any other expenses for the period from April 8, 2005 (date of inception) to December 31, 2005.

Net Loss. As a result of the foregoing, our net loss amounted to US\$4.1 million for the year ended December 31, 2006 and US\$0.4 million for the period from April 8, 2005 (date of inception) to December 31, 2005.

Liquidity and Capital Resources

Our liquidity needs include (i) net cash used in operating activities that consists of (a) cash required to fund the initial build-out and continued expansion of our network and (b) our working capital needs, which include payment of our operating expenses and financing of our accounts receivable; and (ii) net cash used in investing activities that consists of the investments in our direct investment entities. To date, we have financed our liquidity needs primarily through proceeds from the issuance of the Series A and Series B convertible preferred shares, proceeds from our initial public offering and cash flows from operations. We raised US\$14.3 million from the issuance of Series A convertible preferred shares in April 2006 and US\$40.0 million from the issuance of Series B convertible preferred shares in March and July 2007. In December 2007, we received gross proceeds of US\$100.4 million from our initial public offering. We believe that our current levels of cash and cash flows from operations will be sufficient to meet our anticipated cash needs for at least the next 12 months.

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On March 5 and March 28, 2007, we borrowed an aggregate amount of RMB17.1 million from Meidi Zhiye, a related party, to fund our working capital requirements. On April 29, 2007, we repaid Meidi Zhiye the total amount of such borrowing.

As of December 31, 2007, we had US\$131.1 million in cash. Our cash primarily consists of cash on hand and cash deposited in banks and interest-bearing savings accounts.

We did not generate net income for any quarter since our inception until the three months ended June 30, 2007, in which we generated net income of US\$0.3 million. We generated net income of US\$9.4 million in 2007. We intend to maintain our current policies for collections of accounts receivable, which provide a 90-day credit period following the month in which the advertisement is displayed. We expect our accounts receivable to increase as a result of the rapid growth in our advertising service revenues. As we expect the out-of-home advertising market in China to continue growing, we plan to continue expanding our network in the cities where we already operate and into new cities. We also plan to implement new digital technologies and techniques, such as scrolling information bars, to enhance the effectiveness of our advertising network. These scrolling information bars help increase the effectiveness of our advertising network by continuously displaying real-time information such as news or stock quotes. As a result, we expect these measures to help increase demand for our advertising time. However, we may need additional cash resources in the future if we experience changed business conditions or other developments. We may also need additional cash resources in the future if we find and wish to pursue opportunities for investment, acquisition, strategic cooperation or other similar actions. If we determine that our cash requirements exceed the amounts of cash on hand, we may seek to issue debt or equity securities or obtain short-term or long-term bank financing. Any issuance of equity securities could cause dilution for our shareholders. Any incurrence of indebtedness could increase our debt service obligations and cause us to be subject to restrictive operating and financial covenants. It is possible that, when we need additional cash resources, financing will only be available to us in amounts or on terms that would not be acceptable to us or financing will not be available at all.

The following table sets forth a summary of our cash flows for the periods indicated:

	For the Year Ended December 31,		
	2005	2006 (US\$)	2007
Net cash used in operating activities	(295,690)	(7,825,769)	(6,000,540)
Net cash used in investing activities	(3,282,573)	(3,399,853)	(8,193,279)
Net cash provided by financing activities	6,060,137	13,636,994	138,822,631
Effect of changes in exchange rate	117,204	205,243	1,295,154
Net increase in cash and cash equivalents	2,599,078	2,616,615	125,923,966
Cash and cash equivalents, beginning of period/year		2,599,078	5,215,693
Cash and cash equivalents, end of period/year	2,599,078	5,215,693	131,139,659

Operating Activities

Our net cash used in operating activities amounted to US\$6.0 million in 2007, US\$7.8 million in 2006 and US\$0.3 million in the period from April 8, 2005 (date of inception) to December 31, 2005. Our net cash used in operating activities decreased in 2007 primarily as a result of operating income of US\$8.6 million in 2007.

Investing Activities

Our net cash used in investing activities amounted to US\$8.2 million in 2007, US\$3.4 million in 2006 and US\$3.3 million in the period from April 8, 2005 (date of inception) to December 31, 2005. Our net cash used in investing activities increased in 2007 primarily due to acquisition of fixed assets of US\$4.3 million in order to expand our advertising network.

Table of Contents**Financing Activities**

Our net cash provided by financing activities amounted to US\$138.8 million in 2007, US\$13.6 million in 2006 and US\$6.1 million in the period from April 8, 2005 (date of inception) to December 31, 2005. Our net cash provided by financing activities in 2006 primarily consisted of proceeds from our issuance of Series A convertible preferred shares in 2006, while our net cash provided by financing activities in 2007 primarily consisted of proceeds from our issuance of Series B convertible preferred shares and from our initial public offering in December 2007.

Capital Expenditures

We had capital expenditures of US\$4.3 million for the year ended December 31, 2007, US\$0.4 million for the year ended December 31, 2006 and US\$54,826 for the period from April 8, 2005 (date of inception) to December 31, 2005. Our capital expenditures were made primarily to acquire digital television displays and related equipment for our network and, beginning in 2007, we also made capital expenditures to upgrade our accounting software and systems. Our capital expenditures are primarily funded by net cash provided by financing activities and to a lesser extent by cash generated from our operations. We expect our capital expenditures in 2008 to primarily consist of purchases of digital television displays and related equipment as we continue to expand our mobile digital television advertising network. As opportunities arise, we may make acquisitions of other businesses that complement our operations. We believe that we will be able to fund these upgrades and equipment purchases through our internal cash, and do not anticipate that these obligations will have a material impact on our liquidity needs.

In connection with the required compliance with the National Standard, we may need to incur additional capital expenditures in order to upgrade the mobile digital television receivers, and we believe that these capital expenditures would not materially affect our liquidity.

Contractual Obligations and Commercial Commitments

The following table sets forth our contractual obligations and commercial commitments as of December 31, 2007:

	Total	Less than 1 year	1-3 years (US\$)	3-5 years	More than 5 years
Long-term purchase agreement	129,686,869	14,685,716	32,239,332	29,786,929	52,974,892
Operating lease obligations	1,433,534	537,618	400,590	202,608	292,718
Total contractual obligations	131,120,403	15,223,334	32,639,922	29,989,537	53,267,610

Operating lease obligations represent leasing arrangements relating to the lease of our office premises.

We have entered into several agreements under our exclusive agency model to purchase advertising time from local mobile digital television companies for a period of five to ten years. As of December 31, 2007, future minimum purchase commitments under these agreements totaled approximately US\$129.7 million.

Off-Balance Sheet Arrangements

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

Table of Contents**Inflation**

In recent years, China has not experienced significant inflation, and thus inflation has not had a material impact on our results of operations. According to the PRC National Bureau of Statistics, the change in Consumer Price Index in China was 1.8%, 1.5% and 4.8% in 2005, 2006 and 2007, respectively.

Quantitative and Qualitative Disclosures about Market Risk***Foreign Exchange Risk***

Substantially all of our revenues, costs and expenses are denominated in Renminbi. Although the conversion of the Renminbi is highly regulated in China, the value of the Renminbi against the value of the U.S. dollar or any other currency nonetheless may fluctuate and be affected by, among other things, changes in China's political and economic conditions. Under the currency policy in effect in China today, the value of the Renminbi is permitted to fluctuate within a narrow band against a basket of certain foreign currencies. China is currently under significant international pressures to liberalize this government currency policy, and if such liberalization were to occur, the value of the Renminbi could appreciate or depreciate against the U.S. dollar.

We use the U.S. dollar as the reporting currency for our financial statements. Our company's functional currency is the U.S. dollar and the functional currency of CDTC and CDMTV is the Renminbi. All of our subsidiary's transactions in currencies other than the Renminbi during the year are recorded at the exchange rates prevailing on the relevant dates of such transactions. Monetary assets and liabilities of our subsidiary existing at the balance sheet date denominated in currencies other than the Renminbi are re-measured at the exchange rates prevailing on such date. Exchange differences are recorded in our consolidated statements of operations. Fluctuations in exchange rates may also affect our consolidated financial statements and operations. For example, to the extent that we need to convert U.S. dollars received in our initial public offering into Renminbi for our operations, appreciation of the Renminbi against the U.S. dollar would have an adverse effect on the amount of Renminbi that we receive from the conversion. Conversely, if we decide to convert Renminbi into U.S. dollars for the purpose of making payments for dividends on our common shares or ADSs or for other business purposes, appreciation of the U.S. dollar against the Renminbi would have a negative effect on the U.S. dollar amounts available to us. Considering the amount of our cash balance as of December 31, 2007, a 1.0% change in the exchange rates between the Renminbi and the U.S. dollar will result in an increase or decrease of RMB9.6 million (US\$1.3 million) for our total amount of cash balance. We received net proceeds from our initial public offering of approximately US\$96.7 million, after deducting underwriting discounts and commissions and the estimated offering expenses payable by us. Assuming that we convert the full amount of the net proceeds we receive from this offering into Renminbi, a 1.0% change in the exchange rates between the Renminbi and the U.S. dollar will result in an increase or decrease of RMB million (US\$ million) of the net proceeds from this offering.

We do not believe that we currently have any significant direct foreign exchange risk and have not used any derivative financial instruments to hedge exposure in foreign exchange risk.

Interest Rate Risk

We have not been, nor do we anticipate being, exposed to material risks due to changes in interest rates. Our risk exposure to changes in interest rates relates primarily to the interest income generated by cash deposited in interest-bearing savings accounts. We did not have any bank borrowing as of December 31, 2007. We have not used, and do not expect to use in the future, any derivative financial instruments to hedge our interest risk exposure.

Recently Issued Accounting Standards

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, Fair Value Measurement, or SFAS 157. SFAS 157 addresses standardizing the measurement of fair value for

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companies that are required to use a fair value measure of recognition for recognition or disclosure purposes. The FASB defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measure date. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. We are 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, or SFAS 159. SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. We are currently evaluating the impact of SFAS No. 159.

In June 2007, the FASB also ratified EITF 07-3, Accounting for Nonrefundable Advance Payments for Goods or Services Received for Use in Future Research and Development Activities, or EITF 07-3. EITF 07-3 requires that nonrefundable advance payments for goods or services that will be used or rendered for future research and development activities be deferred and capitalized and recognized as an expense as the goods are delivered or the related services are performed. EITF 07-3 is effective for fiscal years beginning after December 15, 2007. We are currently evaluating the impact of EITF 07-3. We do not expect the adoption of EITF 07-3 to have a material effect on the consolidated results of operations and financial condition.

In December 2007, the FASB issued SFAS No. 141R, Business Combination, or SFAS 141R, to improve reporting creating greater consistency in the accounting and financial reporting of business combinations. The standard requires the acquiring entity in a business combination to recognize all (and only) the assets acquired and liabilities assumed in the transaction; establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed; and requires the acquirer to disclose to investors and other users all of the information they need to evaluate and understand the nature and financial effect of the business combination. SFAS 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. An entity may not apply it before that date. We are currently evaluating whether the adoption of SFAS 141R will have a significant effect on its consolidated financial position, results of operations or cash flows.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements, or FASB 160, to improve the relevance, comparability, and transparency of financial information provided to investors by requiring all entities to report noncontrolling (minority) interests in subsidiaries in the same way as required in the consolidated financial statements. Moreover, SFAS 160 eliminates the diversity that currently exists in accounting for transactions between an entity and noncontrolling interests by requiring they be treated as equity transaction. SFAS 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Earlier adoption is prohibited. We are currently evaluating whether the adoption of SFAS 160 will have a significant effect on its consolidated financial position, results of operations or cash flows.

In March 2008, the FASB issued SFAS No. 161, Disclosures About Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133. The new standard requires enhanced disclosures to help investors better understand the effect of an entity's derivative instruments and related hedging activities on its financial position, financial performance, and cash flows. Statement No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. We will adopt SFAS No. 161 on January 1, 2009.

Table of Contents**OUR INDUSTRY**

China has the largest advertising market in Asia, excluding Japan, and it is one of the largest and fastest growing in the world, representing the fifth largest advertising market in 2007 by media expenditure according to ZenithOptimedia.

The Advertising Market in China

Fast growing Chinese economy. The Chinese advertising market grew in recent years as a result of, among other factors, the rapid increase in disposable income and consumption of urban residents in China. The National Bureau of Statistics of China reported that the annual disposable income per capita in urban households increased from RMB8,472 in 2003 to RMB13,786 in 2007, representing a CAGR of 12.9%. In Beijing, Guangzhou and Shenzhen, where we have major operations, the urban household annual disposable income per capita in 2006 was RMB19,978, RMB19,851 and RMB22,567, respectively, representing a level significantly above the national average.

Large size and high growth. China has the largest advertising market in Asia excluding Japan as measured by total advertising expenditure. According to ZenithOptimedia, advertising spending in China in 2007 was approximately US\$16.0 billion, accounting for 31.9% of the total advertising spending in Asia excluding Japan. ZenithOptimedia also projected that the advertising market in China will be one of the fastest growing advertising markets in the world in the next three years, at a CAGR of 17.8% from 2007 to 2010. By 2010, China is projected to account for 36.8% of the total advertising spending in Asia excluding Japan. The following table illustrates the amount of advertising expenditure in China from 2003 to 2007, with projections from 2008 to 2010. The table also shows the percentages of total advertising expenditures in Asia excluding Japan that China comprises for the same periods.

	China Advertising Spending (US\$ in millions)	As % of Asia excluding Japan
2003	8,520	26.9%
2004	9,518	27.2%
2005	11,084	28.8%
2006	13,327	30.6%
2007	16,049	31.9%
2008E	20,319	35.2%
2009E	22,951	36.0%
2010E	26,243	36.8%

Source: ZenithOptimedia (June 2008)

We believe the advertising market in China has the potential for considerable and sustained growth due to the relatively low levels of advertising spending per capita and advertising spending as a percentage of GDP in China, as compared to more developed countries or regions. The following table sets forth the advertising spending per capita and as a percentage of GDP in the countries and regions listed below for 2006.

	Advertising spending in 2006	
	Per capita(US\$)	% of GDP
China	10.1	0.48
Hong Kong	398.9	1.50
South Korea	193.1	1.02
Taiwan	69.4	0.44
Japan	318.5	0.94
Asia excluding Japan weighted average	13.6	0.68
United States	577.3	1.33
United Kingdom	395.3	0.92

Source: ZenithOptimedia (June 2008)

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Urban concentration. Historically, advertising spending in China has been highly concentrated in more economically developed urban areas where income per capita is much higher than that in rural areas in China. In 2005, the advertising spending in Beijing, Shanghai and Guangdong province (which includes major cities of Guangzhou and Shenzhen), which were among China's most affluent urban areas, accounted for 15.8%, 18.8% and 16.6%, respectively, of the total advertising spending in China, according to China Infobank, an independent researcher and provider of China's business information.

Television advertising. Television advertising accounts for the most significant portion of the total advertising spending in China. According to the National Bureau of Statistics, at the end of 2006, China had 296 television stations which broadcast 13.6 million hours of television programs to 96.2% of China's population. According to ZenithOptimedia, spending on television advertising was US\$6.2 billion in China in 2007, and is projected to grow to US\$9.1 billion in 2010, representing a CAGR of 13.8% from 2007 to 2010. We believe television will remain as a strong advertising medium in China in the foreseeable future primarily due to China's strong economic development.

Out-of-Home Advertising Market in China

The advertising industry is generally divided into television, newspaper, magazine, radio and other advertising media, which includes out-of-home, billboard, cinema, and Internet advertising. Other advertising media accounts for a larger percentage of total advertising spending in China than in other countries, accounting for 23.9% of the total major media advertising spending in China in 2007, as compared to 13.2% in the United States, according to ZenithOptimedia. Spending on other advertising media in China was US\$3.8 billion in 2007, and is projected to grow to US\$8.5 billion in 2010, representing a CAGR of 30.3% from 2007 to 2010.

We believe the wide acceptance of out-of-home advertising in China as an important advertising medium is due to various reasons, including:

An alternative and supplement to other advertising media. Out-of-home advertising media offer alternatives to reach viewers and supplement other media in an advertiser's overall advertising strategies. Technological innovations in recent years, including the development of digital audio and video content transmission technologies, have enhanced the attractiveness of out-of-home media to advertisers with new means to reach consumers in a wider range of locations.

Effective audience reach. Most out-of-home advertising displays are placed in locations where there is less competition for viewers' attention, such as elevator banks, lobbies or on mass transportation systems. The displays are often the only form of media provided in these environments.

Mobile digital television operations combine the advantages of both traditional television and out-of-home media by broadcasting real-time programs and advertising content in out-of-home locations such as buses, subway stations and other high-traffic public locations. Accordingly, we believe that the mobile digital television advertising market will benefit from the development of both television advertising and out-of-home advertising markets in China.

The mobile digital television advertising industry is still a relatively new market segment in China. As a result, we do not know of any reliable third-party industry research that has separated mobile digital television advertising spending as an individual segment of out-of-home advertising spending or total advertising spending in China.

Table of Contents**Mobile Digital Television Advertising Network on Mass Transportation Systems**

Digital displays installed on mass transportation vehicles were first introduced in China in May 2002 and are becoming more popular in a diversifying out-of-home advertising market. We believe that mobile digital television advertising networks installed on mass transportation systems particularly appeal to advertisers due to the following characteristics of such networks:

Economics and demographics. Cities in China have higher population densities than most cities in other countries. Out-of-home advertising media, such as television displays installed on the mass transportation systems, typically are more effective in places with high population density. The relatively low private vehicle ownership in China, as compared to more developed countries, also contributes to the large number of people taking mass transportation. The National Bureau of Statistics of China reported that at the end of 2006, there were 18.2 million passenger vehicles in private possession in China, equivalent to approximately 4% of China's households. In addition, with increased business activities, more consumers spend greater periods of time out of home, a significant portion of which is spent in mass transportation systems. According to a CTR study commissioned by us in September 2007, over 25 million trips were taken daily on public buses with mobile digital television displays in Beijing, Changchun, Chengdu, Dalian, Harbin, Nanjing, Ningbo, Shenzhen, Suzhou, Wuhan, Wuxi and Zhengzhou combined. We have mobile digital television advertising operations in each of these cities either through exclusive arrangements, direct investment entities, or both. According to a separate CTR report commissioned by us in September 2007, over 45% of people in the same 12 cities commute by bus each day, and over 70% of the people in the same 12 cities have commuted by bus in the past four weeks. In particular, approximately 49% of people in Beijing commute by bus each day. To capture the attention of China's mobile population in transit, we believe advertisers are increasingly willing to allocate a larger portion of their advertisement spending from traditional media to new media such as mobile digital television network.

Attractive television programs. Digital television displays installed on the mass transportation systems extend television services to mass transportation systems, providing advertisers with the advantages of both at-home television and out-of-home media. Since the television content is transmitted based on wireless and digital technologies, this network has the ability to broadcast real-time content, such as news, sports and stock market information. According to a survey commissioned by us and conducted by CTR in September 2007 covering Beijing, Dalian and Chengdu, approximately 97% of viewers stated that they liked or were neutral towards the presence of our displays in the buses and our programs. We believe this level of acceptance results from the viewers' willingness to watch programs and accompanying advertisements in situations where they are otherwise idle.

Effective audience reach. The displays in mass transportation systems are often the only form of media provided in such environments; thus, people are more willing to watch the programs on the displays and the accompanying advertisements. According to the same CTR survey in Beijing, Dalian and Chengdu, 97% and 93% of the bus passengers surveyed on average paid attention to the displays installed on the buses they took during weekdays and weekends, respectively. These viewers took bus an average of 12.9 times per week, and spent an average of 15.5 minutes (approximately half of the average trip length of 33.8 minutes they spent on the buses) watching the programs and advertisements showed on the displays on each trip. According to a survey commissioned by us and conducted by CTR in September 2007 covering Shenzhen's subway platform, 87% and 83% of the subway passengers surveyed on average paid attention to the displays installed on the subway platforms during weekdays and weekends, respectively. These viewers took the subway an average of 7.3 times per week, and spent an average of 3.4 minutes on the subway platform each trip.

Cost effectiveness. Television advertising placed in mass transportation vehicles, such as buses, where a large number of people congregate, can reach consumers at a lower cost than most mass media advertising, such as at-home television. The cost to reach a thousand consumers, or CPM, is

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the standard metric used in the advertising industry to determine cost effectiveness. According to a CTR study in September 2007 commissioned by us, the CPM for advertising on the mobile digital television networks on buses was significantly lower than that on local television channels, as indicated in the following table:

City	Average Daily CPM			
	Mobile Digital TV		Traditional TV Channel	
	Weekdays	Weekends	Weekdays	Weekends
	(RMB)			
Beijing	2.4	2.3	82.6	79.5
Chengdu	7.3	7.2	1,349.5	1,204.4
Nanjing	9.5	9.6	226.6	185.4
Shenzhen	13.7	14.4	637.9	679.3
Wuxi	45.5	47.1	122.5	132.3

In addition, the industry of mobile digital television advertising has the following features which we believe will make it difficult for new entrants to establish a mobile digital television network:

Stringent government regulations. China's broadcasting industry is characterized by tight government control and strict regulation. The PRC government strictly controls the television, internet, radio, film, newspaper, and all news related industries. See Regulation. Due to these stringent governmental controls and regulations, the cooperation of local television stations that have obtained the required government permits and licenses is necessary to operate television broadcasting of programs and advertisements. In each major Chinese city, there are typically not more than two television stations that can serve as a business partner to operate a mobile digital television advertising network in that city.

Technology standard. To cover a big geographic region and reach a large number of out-of-home people, mobile digital television networks must be based on wireless communication technology in broadcasting digital television content. In addition, sophisticated technologies are necessary to ensure the television content transmitted in digital format is received by mobile digital television displays. Mobile digital television operators in China have used several standards for mobile digital television transmission, including the European standard and the standards developed by Tsinghua University and Shanghai Jiaotong University. The PRC government has adopted a national standard that is the integration of the standards developed by Tsinghua University and Shanghai Jiaotong University. The National Standard has become effective on August 1, 2007.

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BUSINESS

Overview

We believe that we operate the largest out-of-home advertising network using real-time mobile digital television broadcasts to deliver content and advertising on mass transportation systems in China based on the number of displays. We operate our advertising business in China through our consolidated affiliated entity, CDMTV, due to PRC regulatory restrictions on foreign investments in the advertising and mobile digital television industries. Our relationships with CDMTV and its shareholders are governed by a series of contractual arrangements that allow us to effectively control, and derive substantially all of the economic benefits from, CDMTV. Our mobile digital television advertising network, or our network, which delivers real-time content provided by the local television stations in addition to advertising, differentiates us from other out-of-home advertising networks in China, and we believe this facilitates our future expansion into different advertising media platforms. Our advertising network consists of digital television displays located on buses and in other selected locations, such as in subway trains in Beijing, that receive mobile digital television broadcasts of real-time content and advertising. As a supplement to our mobile digital television advertising network, we also operate a stationary advertising platform in subway stations in three major cities in China: Guangzhou, Shanghai (since July 1, 2008) and Shenzhen. As of June 30, 2008, our network and stationary advertising platform covered 16 cities in China and consisted of approximately 60,160 digital displays. In addition, we have expanded the geographic reach of our advertising operations by purchasing advertising time on existing mobile digital television networks in cities outside of our network to place advertisements pursuant to the demands of our clients.

We believe that our network delivers substantial value to our advertising clients by reaching the targeted mobile audience in an enclosed environment conducive to capturing their attention. We also believe that the combination of our advertising content along with real-time news and stock quotes, weather and traffic updates, sports highlights and other programs displayed on our network makes the audience more receptive to the advertisements on our network and ultimately helps make the advertisements more effective for our advertising clients. In addition, the real-time broadcasting capability of our network allows us to utilize our network to disseminate public-interest messages and programs that promote the general welfare of society and other urgent messages during emergency situations such as typhoons, earthquakes or other events that concern public safety.

We currently place our digital television displays primarily on buses and subways. As many urban areas in China face increasing traffic congestion, many people endure a long average daily commute time. Therefore, we believe that our network offers our clients the advantages of both traditional television and out-of-home advertising media by capturing the attention of the audience in out-of-home locations with real-time broadcasts of programs.

We principally derive revenues by selling advertising time during breaks in between the programs on our network and stationary advertising platform. In addition, we have the ability to sell soft advertising time embedded in the programs. We charge our advertising clients by the broadcasting time of the advertisement in each city where they want to place their advertisement. We divide our cities into different price categories based on a variety of factors, including the number of installed displays, population, demand and consumer purchasing power.

We use the following business models for our mobile digital television advertising operations in China:

Exclusive agency model refers to our arrangements, with terms typically ranging from four years to 12 years, in 12 cities: Beijing, Changchun, Chengdu, Dalian, Guangzhou, Nanjing, Ningbo, Shenyang, Shenzhen, Taiyuan, Wuhan and Wuxi. We have entered into an exclusive advertising agency agreement with the partner local mobile digital television company in each city that typically gives us the exclusive right to sell all of the advertising time on our local partner's mobile digital

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television network primarily located on buses. Those buses are operated by bus companies that have entered into contracts with our local partners or our local affiliate. In the case of Guangzhou, those buses also include buses operated by a bus company with which we expect to enter into a contract through our local affiliate in the future. Our exclusive agency arrangement in Wuxi that gives us the exclusive right to sell a portion of the advertising time on Wuxi's mobile digital television network does not include sales of advertising time to advertisers from Wuxi.

Direct investment model refers to our arrangements in 11 cities where we and a partner local television station, or its affiliate, have formed a jointly-owned mobile digital television operating company in which we hold a minority equity interest. We refer to these jointly-owned mobile digital television operating companies as direct investment entities in this prospectus. This model gives us the opportunity to work in conjunction with the local television station to provide programs to meet the demands of our audience and advertising clients. In some of our cities, such as Changchun, Chengdu, Dalian, Ningbo, Shenzhen, Wuhan and Wuxi, we have entered into an exclusive agency agreement with our direct investment entity to secure the exclusive right to sell advertising time on that network. For the cities where we have not entered into an exclusive agency agreement, we purchase advertising time from our direct investment entities and resell them to our advertising clients.

Outreach agency model refers to our operations in other cities where we purchase advertising time from an existing mobile digital television company outside of our network, either directly or through an agent at the request of our clients. This model works in conjunction with our network arrangements to extend the reach of our advertising operations to cover substantially all of the major advertising markets in China.

Through June 30, 2008, more than 590 advertisers had purchased advertising time on our mobile digital television advertising network or our stationary advertising platform either directly or through an advertising agent. As a result, our network has attracted a large number of blue-chip companies to purchase advertising time either directly or through an agent pursuant to contracts with an average duration of approximately three months. Our top three international and domestic brand name advertisers, Sanchine Pharmaceutical Co., Ltd., Nice Group Co., Ltd. and Coca-Cola Company, in aggregate accounted for approximately 32.0% of our advertising service revenues for the six months ended June 30, 2008. We believe the appeal and effectiveness of our advertising network is largely evidenced by the number of advertisers who place repeated and multiple advertising campaigns on our network. We generated total revenues of US\$33.9 million in the six months ended June 30, 2008, US\$29.4 million in 2007 and US\$3.9 million in 2006. We achieved a net income of US\$13.9 million for the six months ended June 30, 2008 and US\$9.4 million in 2007, compared to a net loss of US\$4.1 million in 2006.

Our Competitive Strengths

We believe that we have the following competitive strengths:

The Largest Mobile Digital Television Advertising Network Operator Covering Mass Transportation in China Based on the Number of Displays

We believe that our early market presence and large-scale mobile digital television advertising network provide us with a competitive advantage over our existing and future competitors.

Early market presence. We were one of the first companies to establish a large-scale mobile digital television advertising network in the mass transportation systems of major Chinese cities, such as Beijing, Chengdu, Nanjing and Shenzhen. By recognizing this market opportunity and entering into this sector early, we have secured long-term contracts with key licensed mobile digital television companies and established barriers to entry for potential competitors. Through our exclusive advertising agency agreements and direct investment agreements, we secured the rights to place advertisements on local mobile digital television networks in many cities in China. We believe that this early market presence provides us with a substantial advantage because PRC regulatory authorities typically only permit a maximum of two mobile digital television operators in each city.

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As a result, we control a substantial portion of the market for advertising on local mobile digital television in the cities where we have signed exclusive advertising agency agreements and direct investment agreements.

Large-scale, national network that attracts advertising clients. We believe that we operate the largest out-of-home real-time mobile digital television advertising network covering mass transportation in China based on the number of displays in our network. Our mobile digital television advertising network and stationary advertising platform includes digital television displays located in the mass transportation system of 16 cities throughout China as of June 30, 2008. We believe that our broad geographic coverage and our strong presence in many major cities in China, such as Beijing, Chengdu, Guangzhou, Nanjing, Shanghai (since July 1, 2008) and Shenzhen, make us attractive to advertisers who wish to reach diverse consumers in cities across China. Our extensive operations offer our advertising clients the ability to reach a wide audience in urban consumer markets across China and provide the convenience of a one-stop solution for the simultaneous placement of advertising in multiple cities. We believe the size and scope of our network have attained a scale that draws advertising clients to our network, resulting in our ability to charge higher prices for our advertising time as compared to local broadcasting networks.

Real-Time Ability to Deliver Time-Specific and Location-Based Content and Advertising

We believe that our advertising network provides our advertising clients with an effective method of delivering advertising to an audience drawn by real-time broadcasts of news and entertainment. Many traditional advertising platforms suffer from a phenomenon known as advertiser fatigue, where viewers begin to tune out the repeated advertisements. Our network delivers real-time advertising mixed with the real-time content provided by the local television stations, and we believe this gives us a significant competitive advantage over other out-of-home advertising companies in China. Our network delivers a wide variety of programs provided by the local television stations, including real-time news and stock quotes, weather and traffic updates, sports highlights and other entertainment programs. The real-time programs on our network provide unique entertainment interspersed with advertising to capture the attention of passengers during their daily commutes. Our platform also allows the local television stations to provide location-based content and advertising tailored to the targeted city with scrolling news bars to display the latest news. Additionally, our platform gives us the ability to vary the content and advertisements throughout the day. For example, during typical school commuting hours, the network can broadcast programs and advertising targeted toward youth, and during typical office commuting hours, the network can broadcast programs and advertising targeted toward adults. We believe this provides us with a competitive advantage over other out-of-home advertising networks. In addition, the real-time broadcasting platform reduces the ongoing maintenance costs for operating our network. Unlike other out-of-home advertising networks in China that require manual labor to update the content on a regular basis, our digital television displays installed on buses receive content over the airwaves through real-time transmissions of the programming. In addition, the real-time broadcasting capability of our network allows us to utilize our network to disseminate public-interest messages and programs that promote the general welfare of society and other urgent messages during emergency situations such as typhoons, earthquakes or other events that concern public safety.

Exclusive and Long-term Contractual Arrangements

We believe the following factors create barriers to entry for our existing and prospective competitors:

Long-term and exclusive agreements to secure the ability to place advertisements in conjunction with real-time content. We have established long-term agreements with our exclusive agency partners. Our exclusive agency agreements, which typically have a term ranging from four years to 12 years, grant us the right to place advertisements on mobile digital television networks. This enables us to effectively control a substantial portion of the mobile digital television advertising market in many cities in China and create barriers to entry for significant lengths of time.

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Long-term and exclusive agreements with bus companies to install digital television displays. In most of our exclusive agency and direct investment cities, we directly or indirectly maintain long-term placement agreements with major local bus companies which give us the exclusive right to install and operate digital television displays that receive mobile digital television broadcasts. Most of these long-term agreements have a term ranging from four years to 12 years. Our exclusive right to install and operate digital television displays on the buses of many major cities in China provides us with a competitive advantage and creates a barrier to entry for potential competitors for significant lengths of time.

Long-term contractual arrangements with local television stations to establish our direct investment entities. We have entered into long-term contractual arrangements with local television stations in our direct investment cities to establish the direct investment entities together. These long-term contractual arrangements have a term of ten years or longer, and give us the right to use their broadcasting infrastructure and radio frequencies required for mobile digital television operations. We believe that the broad coverage of our network in many cities in China and our exclusive long-term arrangements with both the licensed mobile digital television companies and the bus companies create higher barriers to entry for potential competitors compared to other out-of-home advertising business models.

Effective Advertising Solutions with Content

Our mobile digital television advertising network provides an effective method for our advertising clients to reach a large audience with a relatively low CPM. Many cities in China face increasing traffic congestion and long daily average commute times. We believe that our network delivers substantial value to our advertising clients by reaching the targeted audience during a period of time when they remain in an enclosed environment with few other forms of entertainment to compete for their attention. We believe that our combination of providing advertising with entertaining content rather than merely advertising differentiates us from other out-of-home advertising networks in China.

Our direct investment operations with the local television stations in certain cities enable us to suggest unique content and programs to our direct investment entities. The programming on our network includes news and entertainment shows to capture the attention of commuters riding the mass transportation system on a daily basis. In addition, our ability to include programs on our network allows us to derive additional advertising revenues from sales of soft advertising embedded in the programs and sponsorships of the programs. As a result, we believe that our medium for advertising yields more effective results than other out-of-home advertising media and offers significant value for our advertising clients. Furthermore, our real-time broadcast platform offers more flexibility for our advertising clients to update content frequently compared to billboard advertising or out-of-home advertising networks that replay a fixed cycle of content repeatedly throughout the day. We believe that our mobile digital television advertising network offers the advantages of both traditional television and out-of-home advertising networks by capturing the attention of the audience with our real-time broadcasts of programming and by reaching the audience in the mass transportation system.

As a result, our network has attracted a large number of blue-chip companies to purchase advertising time either directly or through an agent pursuant to contracts with an average duration of approximately three months. Our top three international and domestic brand name advertisers, Sanchine Pharmaceutical Co., Ltd., Nice Group Co., Ltd. and Coca-Cola Company, in aggregate accounted for approximately 32.0% of our advertising service revenues for the six months ended June 30, 2008.

Strong Management and Sales Team with Extensive Experience

We have an experienced management team. In particular, Limin Li, our founder, chairman, chief executive officer and a major shareholder, was one of the first private investors to enter into the mobile digital

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television industry in China. Dina Liu, our chief financial officer, who previously worked as a partner at Ernst & Young Hua Ming, an international accounting firm, brings us her extensive experience with U.S. GAAP and internal controls. In addition, we have assembled a sales team of professionals with extensive industry experience in the advertising industry in China, including prior working experience with major domestic and international advertising firms in China. For example, Alfred Tong, our chief marketing officer, brings us extensive marketing experience and previously served in management roles in leading 4A advertising agencies including Universal McCann and Ogilvy & Mather. Xiaowei Chen, our chief strategy officer, brings us technical expertise and extensive industry experience. Since our inception in 2005, our management team has led the rapid growth of our company and successfully established our mobile digital television advertising network in a short span of time. We believe that the strength and experience of our management team have enabled us to rapidly expand our advertising network, enhance our reputation in the industry and build a strong client base.

Our Strategies

Our objectives are to strengthen our position as the largest mobile digital television advertising network and to become a provider of comprehensive digital media advertising services in China. We intend to achieve these objectives by implementing the following strategies:

Expand the Coverage and Penetration of Our National Network

We intend to expand the coverage and penetration of our mobile digital television advertising network in order to create barriers to expansion and entry for current and prospective competitors. Additionally, we intend to enhance our network's critical mass appeal to our advertisers, and increase our fee rates and revenues.

Strengthen our early mover advantage by expanding our network in existing cities. We plan to expand the reach of our mobile digital television advertising network by increasing the number of digital television displays in our network to reach a larger audience. For the mass transportation companies where we already have the display placement rights, we will continue to install our digital television displays on buses not previously equipped with our displays. We also intend to enter into new placement agreements with other bus companies to install our digital television displays in each of our exclusive agency cities and direct investment cities. We will strive to expand our network to provide a comprehensive coverage of the mass transportation systems in each of our cities.

Expand into new cities through direct investment or exclusive agency agreements. We view the national reach of our network as a cornerstone of our competitive strength. We will seek to expand our network into new cities using either a direct investment model or an exclusive agency model. Our exclusive agency agreements with direct investment partners typically grant us the exclusive right to control all of the advertising time on a mobile digital television advertising network. If a local television station already has formed a mobile digital television company, we will try to sign an exclusive agency agreement with the existing company or purchase advertising time at the request of our clients. Regardless of which business model we use to expand our network, our goals are to expand our mobile digital television advertising network in order to expand our national coverage and to provide our advertising clients with a wider distribution network for their advertisements. We typically charge our advertising clients a fixed price for broadcasting an advertisement over our network in a particular city. We adjust our fee rates from time to time based on a number of factors, including the size of our network and the estimated audience reached in each city. Accordingly, we believe that expanding our network will lead to higher actual prices for our advertising time and, consequently, increased revenues. We recently increased our rate card on May 1, 2008 and July 1, 2008.

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Maximize Our Average Revenues per Hour

We track our performance by measuring the average revenues per hour for all of the cities of our mobile digital television advertising network, and we will implement the following measures to maximize our average revenues per hour:

Attract national and international brand name advertisers to purchase our advertising time. We believe that our marketing efforts aimed at national and international brand name advertisers will help increase the utilization of our advertising time and provide us with higher revenues. Since each city broadcasts a unique mixture of advertising and content, we offer our advertising clients the ability to broadcast advertising content on our network in one city or any combination of the cities where we place advertisements. We will primarily focus our sales and marketing efforts on national and international brand names to provide one-stop advertising solutions for our advertisers to place their advertisements in various cities across China. We also intend to further penetrate the local advertising markets by appealing to local advertisers who typically utilize other types of advertising media in those cities.

Deliver high quality programs that attract our audience. We will continue to provide suggestions to the local television stations to locate entertainment programs suitable for syndication and broadcasting on the local mobile digital television networks in the cities where we operate. The local television stations may also look in other international markets to locate original programs and edit the content to conform to applicable PRC laws and regulations governing content. In addition, the real-time broadcasting capability of our network allows us to utilize our network to disseminate public-interest messages and programs that promote the general welfare of society and other urgent messages during emergency situations such as typhoons, earthquakes or other events that concern public safety. We believe that improving the appeal of the programming on our network will help make our advertising platform more effective and help increase our average revenues per hour.

Increase sales of soft advertising embedded in the programs and offer sponsorships of the programs. We intend to increase our efforts to offer programs that embed advertising, such as strategic product placements or infomercials. In addition, we may also derive revenues from selling sponsorships for each of the programs on our network. We believe these additional advertising opportunities will increase our average revenues per hour by expanding our advertising beyond the traditional time between programs.

Continue to Pursue Exclusive Arrangements with Additional Mobile Digital Television Companies

In order to create additional barriers to entry and expansion for our competitors, we will continue to secure exclusive agreements with the mobile digital television companies to control the advertising time available. We strive to establish exclusive agency agreements with all of the mobile digital television companies in our network. For the direct investment cities, we will attempt to enter into exclusive agency agreements with each direct investment entity after demand for advertising time on that network grows to a sufficient level. Our exclusive agency agreement with our direct investment entity in Wuxi became effective on October 1, 2007. Our exclusive agency arrangement in Wuxi that gives us the exclusive right to sell a portion of the advertising time on Wuxi's mobile digital television network does not include sales of advertising time to advertisers from Wuxi. We have also entered into exclusive agency agreements with our direct investment entities in Changchun, Chengdu, Dalian, Ningbo, Shenzhen and Wuhan. We will also selectively approach other mobile digital television companies in other cities outside of our network to sign exclusive agency agreements to provide additional geographic coverage for our advertising clients. We believe that these exclusive agreements will give us more control over advertising time in our network and help us to maintain barriers to entry for our current and future competitors.

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Continue to Explore New Digital Media Technologies and Techniques in Order to Enhance the Effectiveness of Our Network

We will continue to explore new technologies and techniques to enhance the effectiveness of our advertising network. We have implemented scrolling information bars on the screen to display real-time news and stock quotes, sport scores, and other real-time information. The scrolling information bar will remain on the screen even during advertisements, which may help retain the attention of the viewers. Additionally, we will explore methods of mixing relevant programs together with certain advertisements in order to increase the effectiveness of the advertisement. For example, we may display financial-related advertisements after financial news programs and sports-related advertisements after sports news programs. We believe that these new technologies and techniques will enhance the effectiveness of our advertising network, which will increase demand for our advertising time, which we believe will lead to higher actual prices for our advertising time.

We also intend to implement other measures to make our advertising network more effective. We believe that providing content tailored to the local population will increase the overall interest in our programs and consequently make our advertising network more effective. The real-time broadcasting infrastructure allows us to provide information that we receive from the local television stations to our targeted audience, such as real-time news and stock quotes, weather and traffic updates, sports highlights, other entertainment programs and other content tailored to the local demand. We believe that expansion of our ability to provide localized information services coupled with our ability to distribute advertisements in multiple cities across China will create a unique platform for our advertising clients. We will continue to explore new methods to enhance the content on our mobile digital television advertising network and provide localized services for our audiences. Accordingly, we believe that new digital media opportunities to enhance our advertising network will increase demand for our advertising time, which we believe will lead to higher fee rates and increased revenues for us.

Expand Our Network to Other Advertising Media Platforms

We plan to expand our digital television advertising network to new media platforms such as personal mobile devices and additional in-building displays. The real-time broadcasts provide unique programs not currently available on most other out-of-home advertising networks. We believe that demand exists for the network's programs outside of the mass transportation systems. For example, we have the ability to deliver the broadcasts to personal handheld devices equipped with an LCD screen and a digital television receiver. We expect expanding to other advertising media platforms will increase the value of our network by increasing the size of the audience reached and increasing the exposure time for our advertising clients.

Pursue Strategic Relationships and Acquisitions

We intend to continue expanding the scope of our advertising activities and the type of media platforms we employ through strategic relationships and acquisitions. We will leverage our strong relationships with our client base to penetrate more diverse channels and platforms for advertising. We may consider entering into strategic relationships to expand the reach of our network by partnering with companies that offer other types of advertising media platforms, such as large-size outdoor LED digital billboards or in-store advertising networks. We may also consider acquiring companies that provide synergistic opportunities for our company to grow into a leading multi-platform advertising company in China. We intend to continue expanding into new and complementary advertising media platforms through strategic relationships and acquisitions in order to provide our clients with additional out-of-home advertising platforms to reach a larger target audience.

Table of Contents**Our Advertising Network**

The following map and tables illustrate the geographic scope of our mobile digital television advertising network and stationary advertising platform as of the date of this prospectus:

Our Mobile Digital Television Advertising Network Cities	Exclusive Agency	Direct Investment
Beijing	ü	
Changchun	ü	ü
Changzhou		ü
Chengdu	ü	ü
Dalian	ü	ü
Guangzhou	ü	
Harbin		ü
Nanjing	ü	
Ningbo	ü	ü
Shenyang	ü	
Shenzhen	ü	ü
Suzhou		ü
Taiyuan	ü	
Wuhan	ü	ü
Wuxi ⁽¹⁾	ü	ü
Zhengzhou		ü

- (1) Our exclusive agency arrangement in Wuxi that gives us the exclusive right to sell a portion of the advertising time on Wuxi's mobile digital television network does not include sales of advertising time to advertisers from Wuxi.

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Our Stationary Advertising Platform Cities

Guangzhou⁽¹⁾

Shanghai

Shenzhen

(1) Our exclusive agency arrangement with respect to the digital displays on the subway platforms and in the subway trains in Guangzhou does not include sales of advertising time to advertisers from Guangzhou. However, we have full exclusivity with respect to the five large digital displays located in the subways stations in Guangzhou.

Our mobile digital television advertising network and stationary advertising platform include digital displays installed in the mass transportation systems in 16 cities around China as of June 30, 2008. These digital television displays receive real-time programs broadcast by the local television stations on the mobile digital television frequencies. As of June 30, 2008, our mobile digital television advertising network and stationary advertising platform consisted of approximately 60,160 digital displays.

We believe that our network bridges the gap between traditional television advertising and other out-of-home advertising networks by combining the advantages of each medium. Our advertising network captures the attention of the audience with real-time broadcasts of programs and also reaches the audience in out-of-home locations such as the mass transportation system. Similar to traditional television broadcasts, our network delivers real-time news and stock quotes, sports and other entertainment programs for some of the total broadcast time and advertising content during short breaks between the programs. On the other hand, our network has similarities to other out-of-home advertising networks because it reaches the audience in public venues. We believe that our network delivers substantial value to our advertising clients by reaching the targeted audience while they remain in an enclosed environment.

Our Mobile Digital Television Advertising Network

We conduct our mobile digital television advertising operations under the following three contractual arrangements:

Our Exclusive Agency Cities

As of June 30, 2008, we operated our mobile digital television advertising network under the exclusive agency model in 12 cities: Beijing, Changchun, Chengdu, Dalian, Guangzhou, Nanjing, Ningbo, Shenyang, Shenzhen, Taiyuan, Wuhan and Wuxi. Our mobile digital television advertising network operating under the exclusive agency model in Beijing, Guangzhou and Shenzhen in aggregate accounted for approximately 65.9% of our advertising service revenues for the six months ended June 30, 2008. We entered into exclusive agency agreements with Beijing Beiguang Media Mobile Television Co., Ltd. on October 13, 2006 for a term of 10 years and Shenzhen Mobile Television Co., Ltd. on December 31, 2006 for a term of four years and seven months. On August 31, 2007, we also entered into an exclusive agency agreement with the exclusive operator of the mobile digital television network on Beijing's subway system to place our advertisements on the digital television displays located on the subway trains in Beijing. This agreement will expire on December 31, 2008. These digital television displays receive the mobile digital television broadcasts and constitute part of our network in Beijing. Our exclusive agency arrangement in Wuxi that gives us the exclusive right to sell a portion of the advertising time on Wuxi's mobile digital television network does not include sales of advertising time to advertisers from Wuxi. Under our exclusive agency model, we enter into an exclusive agreement with the local mobile digital television company to become the exclusive advertising agent for that network. According to the terms of the exclusive agency agreements:

We typically pay a pre-determined network rental fee each year to the mobile digital television company to receive the exclusive right to place advertisements on that network.

We have the responsibility to invest in new digital television displays and install the displays in new buses in all cities except for Chengdu, Ningbo and Wuxi.

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We either sign a contract directly with the local mass transportation companies or our local partner or our direct investment entity signs the contract with the local mass transportation companies and assigns the right to install displays to us.

Our local partner or our direct investment entity makes the investment to construct the broadcasting infrastructure and arranges the necessary approvals from the regulatory agencies.

Our local partner or our direct investment entity remains responsible for all of the broadcast programs besides advertising content, but we may provide suggestions for the purpose of maximizing the effectiveness of our advertising network.

Our exclusive agency agreement for mobile digital television displays in buses in Beijing contains additional terms. Upon the establishment of the joint venture company, the exclusive agency agreement will terminate and we will transfer the operations to the joint venture company. We have the obligation to install digital television displays in new buses pursuant to the terms of the agreement between our local operating partner and the local bus company in Beijing. If we fail to perform this obligation or if we fail to timely pay the network rental fee, our local operating partner in Beijing may unilaterally terminate the exclusive agency agreement. Upon termination of this agreement, our local operating partner will have title to all of the digital television displays that we installed.

Our exclusive agency agreement in Shenzhen contains additional terms. We have the obligation to install digital television displays in new buses pursuant to the terms of the agreement between our local operating partner and the local bus company in Shenzhen. In addition, we have the obligation to maintain all of the digital television displays installed in our local operating partner's mobile digital television network. The cost of installing and maintaining the digital television displays is deductible from the network rental fee. The price we charge for the advertising time on our local operating partner's mobile digital television network in Shenzhen must comply with our local operating partner's pricing system. The local operating partner may request the court in Shenzhen to terminate this contract as a remedy if the parties fail to reach an agreement with respect to any disputes that arise regarding our pricing.

In cities where the local television station has already created a mobile digital television company, we generally prefer to expand our cooperation by engaging in an exclusive agency agreement. These exclusive arrangements allow our local partner to focus on the programming and operation of the mobile digital television network without worrying about generating revenues from advertisement. Our pre-determined payment of the network rental fee each year guarantees our local partner a steady stream of income, and our ability to place advertisements from local, national and international clients may enhance the prestige and public perception of the local mobile digital television network. In addition, we generally work closely with our local partner in the operation of the network and may provide suggestions regarding the programming on the network.

Our Direct Investment Cities

As of June 30, 2008, we operated our mobile digital television advertising network under the direct investment model in 11 cities: Changchun, Changzhou, Chengdu, Dalian, Harbin, Ningbo, Shenzhen, Suzhou, Wuhan, Wuxi and Zhengzhou. Besides the primary installations of digital television displays on buses, we also have displays installed in buildings that receive digital television broadcasts from our mobile digital television advertising network in Harbin, Wuhan and Wuxi. Under our direct investment model, we form an operating company together with the local television station authorized to operate the digital television network in that city. Due to regulatory considerations, we typically own 49% of the direct investment entity and our partner owns the other 51%, but in Shenzhen and Wuxi we own 25% and 14%, respectively. Under these direct investment agreements:

We nominate the general manager, for appointment by the board of directors, of most of the direct investment entities.

We train the locally recruited sales force.

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We purchase the advertising time from our direct investment entity and place advertisements for broadcasting on the local network.

We sell the assembled digital television displays to the direct investment entity.

The local television station obtains the necessary approvals for operating the mobile digital television station.

The local television station provides the transmission equipment to broadcast the advertising and program in that city.

The direct investment entity enters into contracts with the local mass transportation companies to install our digital television displays in the buses and other suitable locations.

The local television station provides the news, entertainment and other programs for broadcasting on the direct investment entity's network, and the local television station ensures that the programs conform to applicable PRC content laws and regulations.

In cities without mobile digital television operations, we typically attempt to form an operating company together with the local television station authorized to operate the mobile digital television network in that city. The direct investment model allows us to secure that particular city for a long period of time because our contractual arrangements with the local television stations to form the direct investment entities have durations ranging from ten to 50 years. The direct investment model also allows us to be involved in the process of determining the mixture of entertainment programs and advertising content broadcast on that network. In addition, the direct investment model allows us to expand into new media platforms in the future using mobile digital television broadcasting technology.

We have entered into an exclusive agency agreement with our direct investment entity in Changchun, Chengdu, Dalian, Ningbo, Shenzhen and Wuhan to control all of the advertising time on the mobile digital television network operated by such entity in that city. Our exclusive agency arrangement with our direct investment entity in Wuxi that gives us the exclusive right to sell a portion of the advertising time on Wuxi's mobile digital television network does not include sales of advertising time to advertisers from Wuxi. These exclusive agency agreements grant us the exclusive right to sell the advertising time on the direct investment network typically for a term ranging from four years to 12 years. Under these arrangements, we realize all of the advertising revenues and pay a pre-determined network rental fee to the direct investment entity. Under this type of contract, the direct investment entity effectively transfers the operational risk to us and enjoys a guaranteed stream of revenues.

Our Outreach Agency Cities

We extend our geographic reach outside of our network by purchasing advertising time on mobile digital television networks either directly or through an agent in cities outside of our network at the request of our advertising clients.

Our outreach agency model allows our advertising operation to have a larger geographic presence and provide the local network with advertising from national or international clients, which may heighten the prestige and public perception of the local network. If our demand for advertising time at the local network grows to a sufficient threshold, we may attempt to engage them in an exclusive agency agreement to increase the scope of our cooperation.

Our Stationary Advertising Platform

While the vast majority of our advertising network consists of digital television displays that receive mobile digital television broadcasts, we also operate a separate stationary advertising platform in the subway stations in Guangzhou, Shanghai (since July 1, 2008) and Shenzhen to supplement and extend the reach of our network. Our stationary advertising platform operates independently from our mobile digital television network. In particular, the digital television displays located in the Beijing subway trains receive mobile digital television broadcasts and constitute part of our mobile digital television network instead of our stationary advertising platform. We commenced operations of our stationary advertising platform in May 2007. As of June 30, 2008 we

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have expanded the stationary advertising platform to 2,908 digital displays. In Guangzhou, some of the digital displays are located in the subway trains but these displays do not receive mobile digital television broadcasts and use the same technology as the digital displays located in the subway stations and on subway platforms. For our stationary advertising platform, we enter into agreements directly with the subway company to rent the digital displays that display advertising and content. Our stationary advertising platform also displays useful real-time information provided by the subway company such as the arrival information for the next train.

Advertising Clients, Sales and Marketing***Our Advertising Clients***

The quality and broad geographic coverage of our mobile digital television advertising network has attracted a broad base of international and domestic advertisers. As of June 30, 2008, more than 590 advertisers have purchased advertising time on our mobile digital television advertising network or our stationary advertising platform either directly or through an agent. We regularly work together with some of the largest global advertising agencies, or 4A agencies, to place advertisements for their clients. We have the ability to place a client's advertisements in one or more cities, both within and beyond our network, according to their demands. As of June 30, 2008, we have placed advertisements in 28 cities across China. As a result, our network has attracted a large number of blue-chip companies to purchase advertising time either directly or through an agent pursuant to contracts with an average duration of approximately three months. Our top three international and domestic brand name advertisers, Sanchine Pharmaceutical Co., Ltd., Nice Group Co., Ltd. and Coca-Cola Company, in aggregate accounted for approximately 32.0% of our advertising service revenues for the six months ended June 30, 2008. We believe the appeal and effectiveness of our advertising network is largely evidenced by the number of advertisers who place repeated and multiple advertising campaigns on our network.

The following table sets forth a breakdown of our advertisers by industry for the six months ended June 30, 2008:

Industry	% of total advertising service revenues
Household Products	24%
Pharmaceutical and Nutritional Supplements	24%
Food, Beverage, Restaurants, Wines and Spirits	16%
Electronics and Digital Products	15%
Fashion and Accessories	3%
Financial Services	3%
Others	15%

Sales and Marketing

As of June 30, 2008, we employed an experienced advertising sales force of 276 employees. We also engaged consultants to assist our marketing efforts. In addition to our direct sales force, we also sell our advertising time through third party advertising agencies such as the 4A agencies. We provide in-house education and training to our sales force to ensure that they provide our current and prospective clients with comprehensive information about our services, the advantages of using our mobile digital television advertising network as a marketing channel and relevant information regarding the advertising industry as a whole. We organize our sales force into teams to provide specialized coverage for geographic regions. We believe that our regional coverage teams provide quality service for our advertisers and allow our sales and marketing teams to focus on building close relationships and staying abreast of regional market trends. We also market our advertising services from time to time by placing advertisements on our own network.

We believe our advertisers derive substantial value from our ability to provide advertising services targeted at specific segments of consumer markets. Since market research is an important part of evaluating the effectiveness and value of our business to advertisers, we routinely provide market research reports to our clients as part of our marketing efforts. We conduct market research, consumer surveys, demographic analysis and other advertising industry research for internal use to evaluate new and existing advertising channels. We also purchase

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or commission studies containing relevant market study data from reputable third-party market research firms, such as CTR Market Research. We typically consult such studies to assist us in evaluating the effectiveness of our network to our advertisers. A number of these studies contain research on the numbers and socio-economic and demographic profiles of the users of the mass transportation systems in the cities where we operate.

In May 2008, we agreed with CTR Market Research, the largest media and market research company in China, to jointly develop the first media evaluation standard for China's mobile digital televisions on public transportation systems. China has experienced rapid growth in the mobile digital television market in recent years, but the industry lacks a standardized and authoritative audience measurement index which advertisers and media owners may use to judge the efficacy and value of advertisements placed on mobile digital television networks on public transportation systems. The creation of third-party evaluation standards will help provide criteria to compare mobile digital television with traditional television, which is expected to help raise the status of the emergent mobile digital television industry.

Advertising Contracts

The standard advertising package includes advertising time on our network in a particular city on either the mobile digital television advertising network or our stationary advertising platform, and our clients often combine standard advertising packages to purchase advertising time across multiple cities. Our sales are made pursuant to written contracts with commitments ranging from one week to one year. Similar to traditional television advertising, we primarily sell advertising time during breaks between programs and we also sell soft advertising embedded into programs. The majority of our customers purchase the advertising time during breaks between programs and we often provide flexible durations of time to meet the specific demands of our advertising clients. Our clients may choose to air these advertisements during specific times of the day or throughout the entire day. Our advertising rates vary depending on the broadcast city and the receiving platform. We divide our cities into different categories and charge rates consistent with the advertising market in that city. We evaluate the listed price at the end of each quarter against the prevailing advertising rates for our competitors in each city and determine any adjustments based on prevailing market trends. The price we charge for the advertising time differs in each city as a function of the size of our network, the quality and mixture of the programming, socioeconomic conditions and other prevailing market considerations.

We generally require our clients to submit advertising content at least five days prior to the first broadcast date for compliance review. We also reserve the right to refuse to disseminate advertisements that are not in compliance with content requirements under PRC laws and regulations.

Programming

The mobile digital television network in each city determines its mixture of programming independently from the others. For our direct investment cities, the direct investment entity exercises direct control over the mixture of programming and advertising, and for our exclusive agency cities, we typically work closely with our partner network to enhance the effectiveness of the broadcasted advertisements. The mobile digital television network broadcasts real-time news and stock quotes, sports highlights and other entertainment programs for most of the time and we use short breaks between these programs to broadcast advertising in order to maximize the effectiveness of our advertising network.

We provide suggestions for some of the programs for broadcast in our direct investment cities, and the local television station produces the remaining programs by editing the material used for local television station broadcasts. Our ability to distribute programs produced by the local television station in one city to other cities in our network gives us the opportunity to syndicate entertaining programs across all of our local networks and to attract a greater audience to our network. Our real-time broadcast platform also allows the local television station to provide real-time news and stock quotes and entertainment programs.

Relationships with Location Providers

We or our direct investment entities install the digital television displays on the buses of the mass transportation system. Therefore, establishing and maintaining long-term relationships with the local mass

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transportation companies is critical to our business. We have entered into the following arrangements to secure the right to install or use the displays on the mass transportation systems in many cities in China.

Our Exclusive Agency Cities

In our exclusive agency cities of Beijing, Nanjing, Shenyang, Shenzhen and Taiyuan, the local mobile digital television company negotiates directly with the bus companies for a placement agreement to secure the right to install digital television displays and then exclusively assigns that right to us. In our exclusive agency cities that are also our direct investment cities, the direct investment entity usually negotiates directly with the bus companies or other location providers for a placement agreement to secure the right to install and operate the digital television displays. On August 31, 2007, we also entered into an exclusive agreement with the exclusive operator of the mobile digital television network on Beijing's subway system to place advertisements on the digital television displays located in the subway trains in Beijing. These digital television displays receive the mobile digital television broadcasts and constitute part of our network in Beijing. In Guangzhou, our local affiliate has entered into agreements directly with two bus companies to install and operate the mobile digital television displays.

Our Direct Investment Cities

In most of our direct investment cities, the direct investment entity negotiates directly with the bus companies or other location providers for a placement agreement to secure the right to install the digital television displays.

Our Stationary Advertising Platform

For our stationary advertising platform in Guangzhou, Shanghai and Shenzhen, we directly negotiate with the subway companies to rent the digital displays located in the subway stations, subway trains or on the subway platforms.

Technology

Our digital television advertising network uses digital television technology. This technology provides a communication method for broadcasting and receiving moving pictures and sound by using digital signals, which provides better throughput compared to the analog signals used by analog televisions. The digital television broadcasts use digital modulation data, which uses an algorithm to digitally compress the data. The transmission equipment broadcasts the digital bit stream wirelessly over an analog bandpass channel to television receivers that decode the digital signal. Our digital television displays installed on buses contain a receiver and decoder component that performs this task and displays the broadcasted content. This technology enables the uninterrupted reception of audio visual signals while in motion, thereby allowing the display of real-time programs on moving buses. Our stationary advertising platform located in the subway station in Guangzhou and Shenzhen also uses digital displays, and we transmit the advertisements and information from the subway company from the broadcast center digitally, through a local area network, to the display.

Suppliers

The primary hardware required for the operation of our business consists of digital television displays, mobile digital television receivers, speakers and other related equipment that we use in our mobile digital television advertising network. Maintaining a steady supply of our digital television displays is important to our operations and the growth of our mobile digital television advertising network. We purchase our digital television displays and receivers from third party manufacturers who build these components according to our specifications. We select component suppliers based on price and quality. As there are several other qualified alternative suppliers for our equipment, our obligation to our current suppliers is not exclusive. We have never experienced any material delay or interruption in the supply of our digital television displays.

Our primary supplier of LCD screens, Xiamen Overseas Chinese Electronic Co., Ltd., or Prima, also purchases advertising time on our network and was our second largest customer in 2006 and remains a customer in 2007. None of our transactions with Prima was performed through barter transactions, and we believe that all of our contracts with Prima have been negotiated at arm's length for fair market value.

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Competition

We compete with other advertising companies in China including companies that operate out-of-home advertising media networks such as Focus Media Holding Limited, Towona Mobile Digital Co., Ltd., Bus Online Media Co., Ltd. and Digital Media Group. We also compete with traditional television stations for advertising spending. We compete for advertising clients primarily on the basis of network size and coverage, location, price, the range of services that we offer and our brand name. We also compete for overall advertising spending with other alternative advertising media companies, such as the Internet, street furniture, billboard, frame and public transport advertising companies, and with traditional advertising media, such as newspapers, magazines and radio. Some of our competitors operate digital television advertising networks installed on mass transportation systems primarily playing prerecorded content saved on compact flash cards or DVDs.

In the future, we may also face competition from new entrants into the out-of-home television advertising network sector. In addition, starting on December 10, 2005, the establishment of wholly foreign-owned advertising companies has been permitted. China's ongoing deregulation of its advertising market will likely expose us to greater competition with existing or new advertising companies in China, including PRC subsidiaries of large well-established multi-national companies that may have significantly more resources.

We face barriers-to-entry in the mobile digital television advertising industry as a result of competition. Many smaller mobile digital television companies operate in cities outside of our network pursuant to exclusive agreements, and we expect to encounter barriers-to-entry as we attempt to expand our network into these cities. For example, in Shanghai, Shanghai Oriental Pearl Mobile Television Inc. operates the largest mobile digital television advertising network using broadcasting technology. As a result, we face barriers-to-entry to expand our network to Shanghai. In addition, we will face barriers-to-entry to the extent we expand our out-of-home advertising network to different media platforms, such as in-building displays or large outdoor LED displays, as other companies may have already signed exclusive placement agreements to secure the most desirable locations. These barriers-to-entry may limit our ability to rapidly expand our network in the cities where we already operate and into new cities.

Employees

As of December 31, 2007 and June 30, 2008, we had 216 and 437 full-time employees, respectively. As of June 30, 2008, we had 60 employees in management and administration, 276 in sales and marketing and 101 in network maintenance and development.

We plan to hire additional employees in all functions as we grow our business. None of our employees is represented by a labor union or other collective bargaining agreements. Since establishment, we have never experienced a strike or other disruption of employment. We believe our relationships with our employees are good.

The remuneration package of our employees includes salary, bonus, stock options, other cash benefits and benefits in-kind. In accordance with applicable PRC regulations, we participate in a pension contribution plan, a medical insurance plan, an unemployment insurance plan, a personal injury insurance plan and a housing reserve fund. Our total contribution for such employee benefits required by applicable PRC regulations amounted to US\$582 for the period from April 8, 2005 (date of inception) to December 31, 2005, US\$13,071 for the year ended December 31, 2006 and US\$53,387 for the year ended December 31, 2007.

Facilities

Our principal executive offices are located at our headquarters comprising approximately 920 square meters in Shenzhen, China. We also maintain offices in other cities in China. We lease all of our facilities and do

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not own any real property. We lease some of our facilities from related parties, see Related Party Transactions Transactions with Companies Under Common Control with Us Lease and Loan with Meidi Zhiye. We believe that our leased facilities are adequate to meet our needs for the foreseeable future, and we believe that we will be able to obtain adequate facilities, principally through leasing of additional properties, to accommodate our future expansion plans.

Insurance

We only maintain insurance coverage for our automobiles. We do not maintain any property insurance policies covering equipment and facilities for losses due to fire, earthquake, flood or any other disaster. Consistent with customary industry practice in China, we do not maintain business interruption insurance or key employee insurance for our executive officers. Uninsured damage to any of our equipment or buildings or a significant product liability claim could have a material adverse effect on our results of operations.

Legal and Administrative Proceedings

In February 2008, Xiamen Towona Culture Media Co., Ltd., or Xiamen Towona, filed a claim against Shanxi Mobile TV Co., Ltd., or Shanxi Mobile TV in the Taiyuan Intermediate People's Court, or the Taiyuan Court, and CDMTV was joined as a third party defendant. In the complaint, Xiamen Towona alleged that Shanxi Mobile TV terminated the exclusive agency agreement in Taiyuan with Xiamen Towona without justification. Xiamen Towona sought specific performance of the agreement and monetary damages in the amount of RMB8.0 million. Since the legal proceeding is still in a preliminary stage, we cannot assess the probable outcome of the litigation. If the Taiyuan Court rules against Shanxi Mobile TV, we may be forced to discontinue our operations in Taiyuan, and we may have a right to claim for equitable or legal remedies against Shanxi Mobile TV.

In July 2008, Xiamen Towona and Guangzhou Towona Mobile Digital Advertisement Media Co., Ltd., or Guangzhou Towona, jointly filed a claim against Guangzhou Third Bus Company and CDMTV in the Yuexiu District People's Court in Guangzhou, or the Yuexiu Court. In the complaint, Xiamen Towona and Guangzhou Towona alleged that Guangzhou Third Bus Company and CDMTV removed digital television displays installed by Xiamen Towona and Guangzhou Towona and replaced them with displays bearing our logo. Xiamen Towona and Guangzhou Towona requested equitable relief from the Yuexiu Court to restore their digital television displays. Since the legal proceeding is still in a preliminary stage, we cannot assess the outcome of the litigation.

We are currently not a party to any other material legal or administrative proceedings, and we are not aware of threatened material legal or administrative proceedings against us. We may from time to time become a party to various legal or administrative proceedings arising in the ordinary course of our business.

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REGULATION

The PRC government imposes extensive controls and regulations over the media industry, including on television, radio, newspapers, magazines, advertising, media content production, and the market research industry. This section sets forth a summary of the most significant regulations or requirements that affect our business activities in China or our shareholders' right to receive dividends and other distributions from us.

Regulations on the Television Industry

Television content

According to the Regulations on the Administration of Radio and Television, promulgated by the State Council on August 11, 1997, and the Provisions on the Administration of Radio and Television Program Production promulgated by SARFT on July 19, 2004, entities engaging in the production of television programs, such as feature programs, general programs, drama series and animations, and the trading activities and agency services on the copyrights of such programs must first obtain preliminary approval from SARFT or its provincial branches. The entity must then register with SAIC, to obtain or update its business license. The television programs aired on the mobile digital television networks which we rely on in operating our advertising network are produced by our local operating partners. Our local operating partners are subject to the regulations with respect to television content. Since we rely on our business relationships with our local operating partners for operating our advertising network, our business may be indirectly affected by any changes to the regulations on television content.

Foreign investment in television operations

According to the Regulations on the Administration of Radio and Television, promulgated by the State Council on August 11, 1997, the Detailed Procedures for the Financing of Radio, Film and Television Conglomerates, promulgated by SARFT on December 20, 2001, and the Measures for the Administration of Examination and Approval of Radio Stations and Television Stations, promulgated by SARFT on August 18, 2004, television stations or television channels may only be established and operated by the government. Pursuant to the Several Decisions on the Entry of Private Capital into the Culture Industry, or the Decisions, issued by the State Council on April 13, 2005 and the Several Opinions on Foreign Investment in the Culture Sector, or the Opinions, jointly issued by SARFT, the Ministry of Culture, the General Administration for Press and Publication, the National Development & Reform Commission and the Ministry of Commerce on July 6, 2005, foreign investors are prohibited from establishing or operating television stations or transmission networks, broadcasting television programs, or operating television channels. Under the Opinions and the Circular on the Further Strengthening of the Supervision of Radio and Television Channels, or the Supervision Circular, promulgated by SARFT on August 4, 2005, foreign investors are prohibited from investing in or operating television channels.

We operate our business through our contractual arrangements with CDMTV, which is a PRC company. CDMTV in turn relies on its contractual arrangements with our local operating partners for broadcasting advertisements and programs. All of our local operating partners that engage in broadcasting have obtained the required licenses and approvals for broadcasting television programs. Our PRC legal counsel has advised us that our business operations do not violate any restrictions on foreign investment in television operations.

Foreign investments in television content production

According to the Catalogue of Foreign Investment Industries, amended on October 31, 2007 and became effective on December 1, 2007, foreign investors are prohibited from owning equity interests in companies that are engaged in producing radio and TV programs or drama series.

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Under our contractual arrangements with our local operating partners, our local operating partners are responsible for the production of television content. We or our direct investment entities may provide suggestions with respect to the production or sourcing of the content and advertisements. The content is subject to review and approval by the television stations which broadcast such content. Our consolidated PRC affiliates engaging in advertising content production have obtained the requisite licenses and approvals issued by the local SARFT.

Mobile digital television

On March 27, 2006, SARFT promulgated the Notice Concerning Experimental Mobile Digital Television, or the March 2006 Notice. The March 2006 Notice regulates experimental mobile digital television operations and primarily contains the following provisions:

no experimental mobile digital television shall be operated without approval of SARFT;

no formal operation of mobile digital television shall be conducted before the establishment and adoption of the national standard of mobile digital television;

no foreign investment in mobile digital television operations is permitted;

after the adoption of the national mobile digital television standard, all mobile digital television operations shall comply with such national standard; and

existing mobile digital television network operations must apply for SARFT approval before April 30, 2006, and must stop operating by June 15, 2006 if they failed to submit an application by April 30, 2006 or their application was disapproved by SARFT.

The March 2006 Notice also provides that the local SARFT branches have the authority to order any mobile digital television operators who have violated the March 2006 Notice to stop operating their mobile digital television networks. The March 2006 Notice does not define the term experimental mobile digital television. We believe this term was used because when the notice was promulgated, mobile digital television was a nascent industry in China and technology standards for such industry had not been adopted. We believe the March 2006 Notice applies to the mobile digital television operations by our local operating partners.

The National Standard of Frame Structure and Channel Code and Modulation of Digital Television Ground Broadcasting Transmission System was approved by the Standardization Administration of the PRC on August 18, 2006, and became effective on August 1, 2007. See Risk Factors. If PRC regulators order one or more of our local operating partners to stop their mobile digital television operations due to violations of applicable regulations, our operations would be harmed and our financial conditions and results of operations would be materially and adversely affected and A significant portion of the mobile digital television networks of our direct investment entities and the digital television broadcasting infrastructure of our local operating partners currently do not comply with the newly adopted PRC national standards for mobile digital television operations. If and when our local mobile digital television operating partners and our direct investment entities are required to comply with the National Standards, we may spend significant capital and other resources.

SARFT issued a notice to provincial level SARFT branches in China in July 2007 regarding mobile digital television operations. The notice contains provisions regarding: (i) the authority of local SARFT branches to control program production and broadcasting on the mobile digital television networks; (ii) the development of the mobile digital television business; (iii) permission for non-state-owned enterprises to form joint ventures with SARFT-affiliated entities to engage in advertising, marketing, program production and equipment installation services in connection with mobile digital television operations as long as SARFT-affiliated entities control at least 51% equity interest in such joint ventures; (iv) the transition into the National Standard for mobile digital television operations; and (v) the requirement that each local SARFT branch inspect the mobile digital television operations within its jurisdiction. We do not own over 49% equity interest in any of our direct investment entities that we have jointly established with relevant local SARFT-affiliated entities.

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SARFT issued a notice regarding strengthening the administration of public audio/visual media on public transportation vehicles and in public buildings on December 6, 2007. According to this notice, broadcasting programs on audio/visual media located on public transportation vehicles and in public buildings using television, internet or other broadcasting technology must first obtain the approval of SARFT. In addition, programs are prohibited to be broadcasted on audio/video media located in public transportation vehicles, public building and other indoor and outdoor place using compact flash memory card or DVD technology, as only advertisements are allowed to be shown on media using these technologies.

Regulations on the Advertising Industry

Foreign investments in advertising

Under the Catalog and the Administrative Provision on Foreign Investment in the Advertising Industry, jointly promulgated by SAIC and the Ministry of Commerce on March 2, 2004, foreign investors can invest in PRC advertising companies either through wholly owned enterprises or joint ventures with Chinese parties. Since December 10, 2005, foreign investors have been allowed to own up to 100% equity interest in PRC advertising companies. However, the foreign investors must have at least three years of direct operations outside of the PRC in the advertising industry as their core business. This requirement is reduced to two years if foreign investment in the advertising company is in the form of a joint venture. Foreign-invested advertising companies can engage in advertising design, production, publishing and agency, provided that certain conditions are met and necessary approvals are obtained.

We are a Cayman Islands corporation and a foreign legal person under PRC laws and we have not directly operated any advertising business outside of China. Therefore, we do not qualify under PRC regulations to directly provide advertising services. Accordingly, our subsidiary, CDTC, is ineligible to apply for the required licenses for providing advertising services in China. Our advertising business is operated by our consolidated affiliated entity in China, CDMTV. CDMTV is currently owned by Limin Li and Yanqing Liang and holds the requisite licenses to provide advertising services in China. CDMTV directly operates our advertising network, enters into direct investment agreements and exclusive and non-exclusive advertising agency agreements with our local operating partners, and sells advertising time to our advertising clients. We have been, and are expected to continue to be, dependent on CDMTV and its subsidiaries to operate our advertising business. We do not have any equity interest in CDMTV but we receive the economic benefits of it through various contractual arrangements. See Our Corporate Structure.

Advertising content

PRC advertising laws, rules and regulations set forth certain content requirements for advertisements in China including, among other things, prohibitions on false or misleading content, superlative wording, socially destabilizing content or content involving obscenities, superstition, violence, discrimination or infringement of the public interest. Advertisements for anesthetic, psychotropic, toxic or radioactive drugs are prohibited. There are also specific restrictions and requirements regarding advertisements that relate to matters such as patented products or processes, pharmaceuticals, medical instruments, agrochemicals, foodstuff, alcohol and cosmetics. In addition, all advertisements relating to pharmaceuticals, medical instruments, agrochemicals and veterinary pharmaceuticals, together with any other advertisements which are subject to censorship by administrative authorities according to relevant laws or regulations, must be submitted to relevant authorities for content approval prior to dissemination.

Advertisers, advertising operators, and advertising distributors are required by PRC advertising laws and regulations to ensure that the content of the advertisements they prepare or distribute is true and in full compliance with applicable law. In providing advertising services, advertising operators and advertising distributors must review the supporting documents provided by advertisers for advertisements and verify that the content of the advertisements complies with applicable PRC laws, rules and regulations. Prior to distributing

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advertisements that are subject to government censorship and approval, advertising distributors are obligated to verify that such censorship has been performed and approval has been obtained. Violation of these regulations may result in penalties, including fines, confiscation of advertising income, orders to cease dissemination of the advertisements and orders to publish an advertisement correcting the misleading information. In circumstances involving serious violations, the SAIC or its local branches may revoke violators' licenses or permits for their advertising business operations. Furthermore, advertisers, advertising agencies or advertising distributors may be subject to civil liability if they infringe on the legal rights and interests of third parties in the course of their advertising business.

Operational matters of the advertising business

Under the Advertising Law promulgated by the National People's Congress on October 27, 1994, registration, review and filing systems need to be established and maintained for the operation of entities engaged in the advertising business. Advertising fees must be reasonable and rates and fee collection methods must be filed with the PRC Commodity Price Administration and the SAIC for records. Under the Implementation Rule of Advertising Industry Administration, or the Implementation Rule, promulgated by the SAIC, as amended, the advertising agent fee shall not be more than 15% of the advertising fees. The advertising customer must provide relevant documents, including certificates rendered by relevant supervisory administrations before we can deliver or place its advertisements.

We and our affiliates take steps to make sure that, collectively, all of our advertisements comply with applicable laws, rules and regulations. All of the advertisements placed on our network are subject to the review and approval of our local operating partners through whom we broadcast the advertisement. Our business partners employ qualified advertising inspectors who are trained to review advertising content for compliance with relevant laws and regulations. We do not believe that advertisements containing content subject to restriction or censorship comprise a material portion of the advertisements in our business. In the event that any of the advertisements our advertising customers or agencies provide to us or our affiliated entities, and which we or our affiliated entities include in advertising, are not in compliance with relevant PRC advertising laws, rules and regulations, or when these advertisements have not received required approvals or do not comply with content requirements, we will remove the advertisements or advise our business partners to remove the advertisements as soon as we notice such violations.

SARFT promulgated the Interim Measures of Administration of Advertisement Broadcasting of Radio and Television in 2003 that became effective on January 1, 2004. This regulation is applicable to advertisement broadcasting operations of all radio and television stations and channels. This regulation contains a number of restrictions, including that the total advertising time of a radio or television station or channel shall not be greater than 20% of its total broadcasting time each day. Our PRC counsel has advised us that the provisions of this regulation restricting advertising time are only applicable to traditional radio and television broadcasting and that as of the date hereof SARFT has not indicated that this regulation shall apply to mobile digital television. Therefore, we believe that this regulation is not applicable to the mobile digital television industry. See **Risk Factors**. If SARFT determines that the regulations on radio and television advertising operation applicable to advertising mobile digital television or establishes similar regulations for mobile digital television, our business and prospects could be harmed.

Regulations on Foreign Currency Exchange

Foreign currency exchange

Pursuant to the Foreign Currency Administration Rules promulgated on January 29, 1996 and amended on January 14, 1997, and various regulations issued by SAFE and other relevant PRC government authorities, RMB is freely convertible only to the extent of current account items, such as trade-related receipts and payments, interest and dividends. Capital account items, such as direct equity investments, loans and repatriation

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of investment, require the prior approval from SAFE or its local branch for conversion of RMB into a foreign currency, such as U.S. dollars, and remittance of the foreign currency outside the PRC. Payments for transactions that take place within the PRC must be made in RMB. Unless otherwise approved, PRC companies must repatriate foreign currency payments received from abroad. Foreign-invested enterprises may retain foreign exchange in accounts with designated foreign exchange banks subject to a cap set by SAFE or its local branch. Unless otherwise approved, domestic enterprises must convert all of their foreign currency receipts into RMB.

The business operations of our PRC subsidiary and affiliated entities, which are subject to the foreign currency exchange regulations, have all been in accordance with these regulations. We will take steps to ensure that the future operations of these PRC entities are in compliance with these regulations.

Foreign exchange registration of offshore investment by PRC residents

Pursuant to SAFE's Notice on Relevant Issues Concerning Foreign Exchange Administration for PRC Residents to Engage in Financing and Inbound Investment via Overseas Special Purpose Vehicles, or Circular No. 75, issued on October 21, 2005, (i) a PRC resident, including a PRC resident natural person or a PRC company, shall register with the local branch of SAFE before it establishes or controls an overseas special purpose vehicle, or SPV, for the purpose of overseas equity financing (including convertible debt financing); (ii) when a PRC resident contributes the assets of or its equity interests in a domestic enterprise to an SPV, or engages in overseas financing after contributing assets or equity interests to an SPV, such PRC resident shall register his or her interest in the SPV and the change thereof with the local SAFE branch; and (iii) when the SPV undergoes a material event outside of China, such as a change in share capital, or merger or acquisition, the PRC resident shall, within 30 days of the occurrence of such event, register such change with the local branch of SAFE. PRC residents who are shareholders of SPVs established before November 1, 2005 were required to register with the local SAFE branch before March 31, 2006.

Under Circular No. 75, failure to comply with the registration procedures set forth above may result in penalties, including restrictions on a PRC subsidiary's foreign exchange activities in capital accounts and its ability to distribute dividends to the SPV.

On December 25, 2006, the People's Bank of China promulgated the Measures for the Administration of Individual Foreign Exchange, and on January 5, 2007, SAFE promulgated the implementation rules on those measures. These regulations became effective on February 1, 2007. Pursuant to these regulations, PRC citizens who are granted shares or share options by an overseas listed company according to its employee share option or share incentive plan are required, through a qualified PRC agent which may be the PRC subsidiary of such overseas listed company, to register with the SAFE and complete certain other procedures related to the share option or share incentive plan. Foreign exchange income received from the sale of shares or dividends distributed by the overseas listed company must be remitted into a foreign currency account of such PRC citizen or be exchanged into Renminbi. Our PRC citizen employees who have been granted share options, or PRC optionees, will be subject to these regulations upon the listing of our ADSs on the Nasdaq Global Market. If we or our PRC optionees fail to comply with these regulations, we or our PRC optionees may be subject to fines and legal sanctions.

Dividend distribution

The principal laws, rules and regulations governing dividends paid by PRC operating subsidiaries include the Company Law of the PRC (1993), as amended in 2006, the Wholly Foreign Owned Enterprise Law (1986), as amended in 2000, and the Wholly Foreign Owned Enterprise Law Implementation Rules (1990), as amended in 2001. Under these laws and regulations, PRC subsidiaries, including wholly foreign owned enterprises, or WFOEs, and domestic companies in China, may pay dividends only out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, PRC subsidiaries and consolidated affiliates, including WFOEs and domestic companies, are required to set aside at

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least 10% of their after-tax profit based on PRC accounting standards each year to their statutory capital reserve fund until the cumulative amount of such reserve reaches 50% of their respective registered capital. These reserves are not distributable as cash dividends.

Tax

Our operating subsidiary and controlled entities are incorporated in the PRC and are governed by the PRC income tax law, which subjects them to the PRC enterprise income tax rate of 25%.

The PRC EIT Law was enacted on March 16, 2007 and became effective on January 1, 2008. Under the EIT Law and the implementation regulations under the EIT Law issued by the PRC State Council, China has adopted a uniform tax rate of 25% for all enterprises (including foreign-invested enterprises) and revoked the previous tax exemption, reduction and preferential treatments applicable to foreign-invested enterprises. However, there is a transition period for enterprises, whether foreign-invested or domestic, that received preferential tax treatments granted by relevant tax authorities prior to January 1, 2008. Enterprises that were subject to an enterprise income tax rate lower than 25% prior to January 1, 2008 may continue to enjoy the lower rate and gradually transition to the new tax rate within five years. Enterprises that were entitled to exemptions or reductions from the standard income tax rate for a fixed term prior to January 1, 2008 may continue to enjoy such treatment until the fixed term expires. However, if a foreign-invested enterprise had not become profitable before the end of December 2007, a two-year exemption from the enterprise income tax will be granted for the period between the time the enterprise becomes profitable and December 31, 2009. According to the implementation regulations, during the transition period, the EIT rate of CDTC is 18%, 20%, 22%, 24% and 25% in the year of 2008, 2009, 2010, 2011 and 2012, respectively, and the EIT rate of CDMTV is 0%, 20%, 22%, 24% and 25% in the year of 2008, 2009, 2010, 2011 and 2012, respectively. Preferential tax treatments may continue to be granted to industries and projects that are strongly supported and encouraged by the State, and enterprises classified as new and high technology enterprises strongly supported by the State are entitled to a 15% enterprise income tax rate.

The EIT Law also provides that enterprises established outside of China whose de facto management bodies are located in China are considered resident enterprises, and are generally subject to the uniform 25% enterprise income tax rate as to their global income, including income received from subsidiaries and consolidated affiliates. Under the implementation regulations to the EIT Law issued by the PRC State Council, de facto management body is defined as a body that has material and overall management and control over the manufacturing and business operations, personnel and human resources, finances and treasury, and acquisition and disposition of properties and other assets of an enterprise. If we are treated as a resident enterprise for PRC tax purposes, we will be subject to PRC tax on our worldwide income at a rate of 25%.

Furthermore, unlike the PRC Income Tax Law for Enterprises with Foreign Investment and Foreign Enterprise that was replaced by the EIT Law, which specifically exempts withholding tax on any dividends payable to non-PRC investors of foreign-invested enterprises, the EIT Law and implementation regulations issued by the State Council provide that an income tax rate of 10% is normally applicable to dividends payable to non-PRC investors which are derived from sources within China, although such income tax may be exempted or reduced by the State Council of the PRC or a tax treaty between China and the jurisdiction where the non-PRC investors reside. We are a Cayman Islands holding company and substantially all of our income may be derived from dividends we receive from our operating subsidiary and consolidated affiliates located in China. If we declare dividends from such income, it may be deemed to be derived from sources within China under the EIT Law and be subject to income tax under the EIT Law. If we are required under the EIT Law to pay income tax for any dividends we received from our subsidiary in China, your investment in us may be materially and adversely affected. In addition, it is unclear whether dividends paid to our non-PRC shareholders and ADS holders or any capital gains from the transfer of our common shares or ADSs, would be treated as income derived from sources within the PRC and subject to PRC tax. If we are required under the EIT Law to withhold PRC income tax on dividends payable to our non-PRC investors that are non-resident enterprises or if you are required to pay PRC income tax on the transfer of our common shares or ADSs, the value of your investment may be materially and adversely affected.

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We are in the process of evaluating the impact of the EIT Law on our results of operations for 2008 and beyond. Any significant income tax expenses may have a material adverse effect on our net income in 2008 and beyond. Reduction or elimination of the financial subsidies or preferential tax treatments we currently enjoy or imposition of additional taxes on us or our subsidiary in China may significantly increase our income tax expense and materially reduce our net income.

Provisions Regarding Mergers and Acquisitions of Domestic Enterprises by Foreign Investors

On August 8, 2006, six PRC regulatory agencies, including the CSRC, promulgated a rule entitled Provisions Regarding Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, or the new M&A rule, to regulate foreign investment in PRC domestic enterprises. The new M&A rule provides that the Ministry of Commerce must be notified in advance of any change-of-control transaction in which a foreign investor takes control of a PRC domestic enterprise and any of the following situations exist: (i) the transaction involves an important industry in China; (ii) the transaction may affect national economic security; or (iii) the PRC domestic enterprise has a well-known trademark or historical Chinese trade name in China. The new M&A rule also contains a provision requiring overseas SPVs, formed for listing purposes through acquisitions of PRC domestic companies and controlled by PRC individuals, to obtain the approval of the CSRC prior to publicly listing their securities on an overseas stock exchange. On September 21, 2006, the CSRC issued a clarification that sets forth the criteria and process for obtaining any required approval from the CSRC.

To date, the application of this new M&A rule is unclear. Our PRC counsel, Grandall Legal Group, has advised us that:

the CSRC approval requirement applies to overseas SPVs that acquired equity interests in PRC companies through share exchanges and cash and seek overseas listing; and

based on their understanding of the current PRC laws, rules and regulations and the new M&A rule, unless there are new PRC laws and regulations or clear requirements from the CSRC in any form that require the prior approval of the CSRC for the listing and trading of any overseas SPV's securities on an overseas stock exchange, the new M&A rule does not require that we obtain prior CSRC approval for the listing and trading of our ADSs on the Nasdaq Global Market because we completed our reorganization under which CDTC was established and assets and business were subsequently transferred from CDMTV to CDTC prior to September 8, 2006, the effective date of the new regulation.

Table of Contents**MANAGEMENT****Executive Officers and Directors**

The following table sets forth information regarding our executive officers and directors as of the date of this prospectus.

Name	Age	Position/ Title
Limin Li	47	Chairman of the Board of Directors, Chief Executive Officer
Dina Liu	37	Chief Financial Officer
Alfred Tong	43	Chief Marketing Officer
Xiaowei Chen	37	Chief Strategy Officer
Yi Zhang	33	Chief Administrative Officer
Haijun Liu	43	Chief Development Officer
Yanqing Liang	36	Director
William Decker	62	Independent Director
Xisong Tan	60	Independent Director
Yunli Lou	40	Director

Limin Li is our co-founder and has been chairman of our board of directors since our inception in 2005 and our chief executive officer since March 2007. Mr. Li has been a director and chairman of Shenzhen Champs Elysees Venture Capital Management Co., Ltd., a PRC company engaging in project financing and investment management, since 2003. He has also been a director and chairman of Shenzhen Meidi Real Estate Development Co., Ltd., a PRC real estate development company, since 1997. He has also been a director and chairman of Shenzhen Meiye Enterprise Development Co., Ltd., a PRC manufacturer and distributor of electronic products, since 1992. Mr. Li received a bachelor's degree from Wuhan Institute of Physical Education.

Dina Liu has been our chief financial officer since June 2007. Prior to joining our company in June 2007, Ms. Dina Liu worked at Ernst & Young, where she became partner of the firm on January 1, 2007. While at Ernst & Young's Beijing office from 2001 to 2007, Ms. Dina Liu worked in the technology, communication and entertainment industry group providing services relating to cross-border transactions and Sarbanes-Oxley Act Section 404 compliance as well as other accounting and audit services to clients seeking access to U.S. capital markets. In addition, prior to 2001, Ms. Dina Liu worked at the San Jose and Toronto offices of Ernst & Young. Ms. Dina Liu received a master of business administration degree from the University of Toronto in 1997 and is a member of the Canadian Institute of Chartered Accountants.

Alfred Tong has been our chief marketing officer since February 2008. From 2005 to February 2008, Mr. Tong served as the marketing director leading media and marketing operations in China for PepsiCo International. In 2004, he was a vice president of Universal McCann. From 2001 to 2003, Mr. Tong was the general manager of Leader Advertising in Shanghai. Prior to joining Leader Advertising, Mr. Tong held a series of positions at BBDO, Ogilvy & Mather and MindShare Shanghai. Mr. Tong received a bachelor's degree in communication in advertising and marketing from Hong Kong Polytechnic College.

Xiaowei Chen has been our chief strategy officer since August 2006. Mr. Chen has worked for our company since our inception in 2005. He was general manager of Jiangsu Yinhe Operation Management Co., Ltd. from November 2002 to December 2004. He was the executive vice general manager of Xiamen ABBA Group Ltd. from 1997 to 1999. He was general manager of a subsidiary of Xiamen Xindeco Ltd., a company listed in China, from 1993 to 1997. Mr. Chen received a bachelor's degree in control science from Xiamen University.

Yi Zhang has been our chief administrative officer since June 2007 and was our chief investment officer from January 2006 to June 2007. From 2004 to 2005, Ms. Zhang was the vice president of Shenzhen Champs

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Elysees Venture Capital Management Co., Ltd. From 2002 to 2004, she was a senior manager of Shenzhen Development Bank Co., Ltd. Ms. Zhang received a master's degree in European studies from University of Macau, a master's degree in world economics from Wuhan University and a bachelor's degree in economics from Wuhan University.

Haijun Liu has been our vice president since July 2006 and has been general manager of Beijing Beiguang Media Mobile Television Advertising Co., Ltd., a wholly-owned subsidiary of our company, since October 2006. From August 2005 to October 2006, Mr. Liu was general manager of Jilin Mobile Television Co., Ltd., a direct investment entity of our company. From 1996 to 2005, he was general manager of Shenzhen Huali Electronic Co., Ltd. Mr. Liu received a bachelor's degree and a master's degree in electronic materials from Xi'an Jiaotong University in 1985 and 1991, respectively.

Yanqing Liang is our co-founder and has been a director of our company since our inception in 2005. Since 2006, she has been a director of Beijing Zonghe Qingrun Investment Co., Ltd. From 1997 to 2005, Ms. Liang worked for the human resource department of the Guangdong branch of China Mobile Limited. Ms. Liang received a bachelor's degree from Harbin Normal University in 1997.

William Decker has been a director of our company since December 2007. Mr. Decker has served as an independent director and the chair of the audit committee of Baidu.com, Inc. since October 2005. Mr. Decker is a retired partner of PricewaterhouseCoopers LLP. Prior to his retirement in July 2005, Mr. Decker was the senior partner in charge of PricewaterhouseCoopers LLP's Global Capital Markets Group. He led a team of more than 300 professionals in 25 countries to provide technical support to non-US companies on SEC regulations and U.S. GAAP reporting and assistance with the Sarbanes-Oxley Act compliance work. He was also one of PricewaterhouseCoopers LLP's lead authorities on the Sarbanes-Oxley Act. Mr. Decker received a bachelor's degree in accounting from Fairleigh Dickinson University in New Jersey.

Xisong Tan has been a director of our company since December 2007. Ms. Tan has served as a director and chairwoman of the board of directors of Hairun Ogilvy Entertainment Distribution and Advertising Company since 2005. She also served as a consultant of our company from 2006 until 2007. From 1999 to 2005, Ms. Tan served as general manager of Hong Kong China Advertising Company and president of Hairun Advertising Company. Prior to 1999, she was the director of the advertising department of China Central Television, or CCTV, the director of CCTV's advertisement and economic information center and assistant president of CCTV, which operates the largest television network in China. Ms. Tan is a director of China Advertising Association and a director of China 4A Advertising Association. She received a bachelor's degree from the Party School of the Central Communist Party Commission.

Yunli Lou has been a director of our company since March 2007. Ms. Lou has been a non-executive director of Yuhua TelTech (Shanghai) Co., Ltd., a China-based research and development company in the wireless industry, since 2004. Ms. Lou has been a managing director of Milestone Capital Partners Limited since 2007, responsible for the firm's overall management, investor relations as well as deal sourcing and execution. She has been a managing partner of Milestone Capital Management Limited since 2002. Before founding Milestone Capital in 2002, Ms. Lou was a vice president of Merrill Lynch's direct investment group, where she was responsible for the firm's investment activities in China. Prior to joining Merrill Lynch in 1995, she worked in the corporate finance division of Goldman Sachs in New York and Hong Kong. Ms. Lou received a bachelor's degree in economics from Harvard University in 1992.

The business address for all of our executive officers and directors, except Yunli Lou, is 1/F Block No. 7, Champs Elysees, Nongyuan Road, Futian District, Shenzhen 518040, the People's Republic of China. Yunli Lou uses her business addresses disclosed in Principal and Selling Shareholders.

Employment Agreements

We have entered into employment agreements with each of our executive officers. We may terminate an executive officer's employment for cause, at any time, without notice or remuneration, for certain acts of the

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officer, including, but not limited to, a conviction or plea of guilty to a felony, willful misconduct to our detriment or a failure to perform agreed duties. An executive officer may terminate his or her employment at any time without penalty if there is a material reduction in his or her authority, duties and responsibilities or if there is a material breach by us, provided that we are allowed to correct or cure within 30 days upon receipt of his or her written notice of intent to terminate on such basis. Furthermore, either we or an executive officer may terminate employment at any time without cause upon advance written notice to the other party. Each executive officer is entitled to certain benefits upon termination, including a severance payment equal to three months' salary, if he or she resigns for certain specified good reasons or if we terminate his or her employment due to his or her incapacitation. We will indemnify an executive officer for his or her losses based on or related to his or her acts and decisions made in the course of his or her performance of duties within the scope of his or her employment.

Each executive officer has agreed to hold in strict confidence any trade secrets or technical secrets of our company. Each officer also agrees to comply with all material applicable laws and regulations related to his or her responsibilities at our company as well as all material written corporate and business policies and procedures of our company.

Indemnification Agreements

We have entered into indemnification agreements with each of our directors. Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers or persons controlling us pursuant to the indemnification agreement, we have been informed that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

Board of Directors

Our board of directors currently consists of five directors. A director is not required to hold any shares in our company by way of qualification. A director may vote with respect to any contract, proposed contract or arrangement in which he or she is materially interested. A director may exercise all the powers of our company to borrow money, mortgage its undertaking, property and uncalled capital, and issue debentures or other securities whenever money is borrowed or as security for any obligation of our company or of any third party.

Committees of the Board of Directors

Audit Committee

Our audit committee consists of William Decker, Xisong Tan and Yunli Lou. Our board of directors has determined that each of William Decker and Xisong Tan satisfies the independence requirements of Rule 10A-3 under the Securities Exchange Act of 1934, as amended, and Rule 4350 of the Nasdaq Marketplace Rules. Mr. Decker is the chairman of our audit committee and meets the criteria of an audit committee financial expert as set forth under the applicable rules of the SEC. Our audit committee oversees our accounting and financial reporting processes and the audits of the financial statements of our company. The audit committee is responsible for, among other things:

selecting our independent auditors and pre-approving all auditing and non-auditing services permitted to be performed by our independent auditors;

reviewing with our independent auditors any audit problems or difficulties and management's response;

reviewing and approving all proposed related-party transactions, as defined in Item 404 of Regulation S-K under the Securities Act;

discussing the annual audited financial statements with management and our independent auditors;

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reviewing major issues as to the adequacy of our internal controls and any special audit steps adopted in light of material control deficiencies;

annually reviewing and reassessing the adequacy of our audit committee charter;

such other matters that are specifically delegated to our audit committee by our board of directors from time to time;

meeting separately and periodically with management and our internal and independent auditors; and

reporting regularly to the full board of directors.

Compensation Committee

Our compensation committee consists of William Decker, Limin Li and Xisong Tan. Our board of directors has determined that each of William Decker and Xisong Tan satisfies the independence requirements of Rule 4350 of the Nasdaq Marketplace Rules. Our compensation committee assists the board in reviewing and approving the compensation structure, including all forms of compensation, relating to our directors and executive officers. Our chief executive officer may not be present at any committee meeting during which his compensation is deliberated. The compensation committee is responsible for, among other things:

reviewing and making recommendations to the board with respect to the total compensation package for our three most senior executives;

approving and overseeing the total compensation package for our executives other than the three most senior executives;

reviewing and making recommendations to the board with respect to the compensation of our directors; and

reviewing periodically and approving any long-term incentive compensation or equity plans, programs or similar arrangements, annual bonuses, employee pension and welfare benefit plans.

Corporate Governance and Nominating Committee

Our corporate governance and nominating committee consists of William Decker, Limin Li and Xisong Tan. Our board of directors has determined that each of William Decker and Xisong Tan satisfies the independence requirements of Rule 4350 of the Nasdaq Marketplace Rules. Our corporate governance and nominating committee assists the board of directors in selecting individuals qualified to become our directors and in determining the composition of the board and its committees. The corporate governance and nominating committee is responsible for, among other things:

selecting and recommending to the board nominees for election or re-election to the board, or for appointment to fill any vacancy;

reviewing annually with the board the current composition of the board with regards to characteristics such as independence, age, skills, experience and availability of service to us;

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selecting and recommending to the board the names of directors to serve as members of the audit committee and the compensation committee, as well as the corporate governance and nominating committee itself;

advising the board periodically with regards to significant developments in the law and practice of corporate governance as well as our compliance with applicable laws and regulations, and making recommendations to the board on all matters of corporate governance and on any remedial action to be taken; and

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monitoring compliance with our code of business conduct and ethics, including reviewing the adequacy and effectiveness of our procedures to ensure proper compliance.

Duties of Directors

Under Cayman Islands law, our directors have a fiduciary duty to act honestly, in good faith and with a view to our best interests. Our directors also have a duty to exercise the skills they actually possess and such care and diligence that a reasonably prudent person would exercise in comparable circumstances. In fulfilling their duty of care to us, our directors must ensure compliance with our memorandum and articles of association, as amended and restated from time to time. A shareholder has the right to seek damages if a duty owed by our directors is breached.

The functions and powers of our board of directors include, among others:

convening shareholders annual general meetings and reporting its work to shareholders at such meetings;

issuing authorized but unissued shares and redeeming or purchasing outstanding shares of our company;

declaring dividends and other distributions;

appointing officers and determining the term of office of officers;

exercising the borrowing powers of our company and mortgaging the property of our company; and

approving the transfer of shares of our company, including the registration of such shares in our share register.

Terms of Directors and Executive Officers

Our officers are elected by and serve at the discretion of the board of directors. Our directors are not subject to a term of office and hold office until such time as they are removed from office by special resolution, without cause or by ordinary resolution, with cause. A director will be removed from office automatically if, among other things, the director (i) becomes bankrupt or makes any arrangement or composition with his creditors; or (ii) dies or is found by our company to be or becomes of unsound mind.

Appointment of Directors by Certain Shareholders

Under the terms of the amended and restated shareholders agreement, dated March 9, 2007, among holders of our preferred shares, holders of our common shares and our company: (a) the OZ Funds are entitled to (i) appoint one voting member of our board of directors so long as the OZ Funds continue to hold no less than 10% of the then outstanding equity securities of our company and (ii) appoint a representative to attend all meetings of our board of directors and its committees in a non-voting, observer capacity for so long as the OZ Funds holds any equity security of our company, (b) a majority in interest of our Series B preferred share investors are entitled to appoint one voting member of our board of directors so long as the Series B preferred share investors continue to hold no less than 10% of the then outstanding equity securities of our company, (c) Milestone I, Milestone II, Milestone III and Milestone IV, collectively, are entitled to appoint a representative to attend all meetings of our board of directors and its committees in a non-voting, observer capacity for so long as they collectively, hold any equity security of our company, and (d) GSPS is entitled to appoint a representative to attend all meetings of our board of directors and its committees in a non-voting, observer capacity for so long as GSPS hold any equity security of our company. Although all of our Series A and Series B preferred shares were automatically converted to common shares upon the closing of our initial public offering, the OZ Funds and our Series B preferred share investors, as holders of our common shares, continue to be entitled to the rights described above. The amended and restated shareholders agreement remained in effect after the closing of our

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initial public offering except certain of its provisions that explicitly expired upon the closing of the initial public offering. The amended and restated shareholders agreement has been furnished as an exhibit to the registration statement that includes this prospectus.

Compensation of Directors and Executive Officers

In 2007, the aggregate cash compensation to our executive officers, including all the directors, was US\$0.4 million. For options granted to officers and directors, see 2006 Share Incentive Plan.

2006 Share Incentive Plan

We have adopted our 2006 share incentive plan, or the 2006 share incentive plan, to attract and retain the best available personnel, provide additional incentives to our employees, directors and consultants, and promote the success of our business. The 2006 share incentive plan provides for the grant of options, restricted shares, and restricted share units, collectively referred to as awards. Our board of directors has authorized the issuance of up to 7,000,000 common shares upon exercise of awards granted under our 2006 share incentive plan.

Plan Administration. Our board of directors, or a committee designated by our board or directors, will administer the 2006 share incentive plan. The committee or the full board of directors, as appropriate, will determine the participants to receive awards, the type and number of awards to be granted, and the terms and conditions of each award grant.

Award Agreements. Awards granted under our 2006 share incentive plan are evidenced by an award agreement that sets forth the terms, conditions and limitations for each grant, which may include the term of the award, the provisions applicable in the event that the grantee's employment or service terminates, and our authority to unilaterally or bilaterally amend, modify, suspend, cancel or rescind the award.

Transfer Restrictions. The right of a grantee in an award granted under our 2006 share incentive plan may not be transferred in any manner by the grantee other than by will or the laws of succession and, with limited exceptions, may be exercised during the lifetime of the grantee only by the grantee.

Option Exercise. The term of options granted under the 2006 share incentive plan may not exceed ten years from the date of grant. The consideration to be paid for our common shares upon exercise of an option or purchase of shares underlying the option may include cash, check or other cash-equivalent, common shares, consideration received by us in a cashless exercise, or any combination of the foregoing methods of payment.

Acceleration upon a Change of Control. If a change of control of our company occurs and a grantee is terminated without cause within one year after such change of control, our board of directors may decide to grant one year acceleration to such terminated grantee. There is no other accelerated vesting in any event.

Termination and Amendment. Unless terminated earlier, our 2006 share incentive plan will expire after ten years. Our board of directors has the authority to amend or terminate our 2006 share incentive plan subject to shareholder approval to the extent necessary to comply with applicable laws. Shareholders' approval is required for any amendment to the 2006 share incentive plan that (i) increases the number of common shares available under the 2006 share incentive plan, (ii) permits our board of directors to extend the exercise period for an option beyond ten years from the grant date, or (iii) results in a material increase in benefits or a change in eligibility requirements.

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Our board of directors has only granted options to participants in our 2006 share incentive plan. As of June 30, 2008, there were 4,775,216 common shares issuable upon the exercise of outstanding share options at a weighted average exercise price of US\$4.74 per share, and there were 665,390 common shares available for future issuance upon the exercise of future grants under our 2006 share incentive plan. The following table summarizes, as of June 30, 2008, the options granted to our directors and executive officers and other individuals as a group, without giving effect to options that were exercised or terminated:

Name	Ordinary Shares	Exercise Price	Grant Date	Expiration Date
	Underlying Outstanding Options or restricted Shares	Underlying Outstanding Options (\$/Share)		
Limin Li ⁽¹⁾	350,000	6.545	August 30, 2007	August 30, 2017
Dina Liu ⁽²⁾	726,739	1.90	April 6, 2007	April 6, 2017
Alfred Tong ⁽³⁾	*	10.30	March 14, 2008	March 14, 2018
Xiaowei Chen ⁽⁴⁾	*	0.60	December 8, 2006	December 8, 2016
Yi Zhang ⁽⁴⁾	*	0.60	December 8, 2006	December 8, 2016
Haijun Liu ⁽⁴⁾	*	1.00	December 8, 2006	December 8, 2016
William Decker	*	6.545	October 31, 2007	October 31, 2017
Xisong Tan	*	1.00	December 8, 2006	December 8, 2016
Other individuals as group	2,923,477	1.00-18.00	⁽⁵⁾	⁽⁶⁾

* Upon exercise of all options granted, would beneficially own less than 1% of our outstanding common shares.

- (1) Represents options to purchase 350,000 common shares granted to Front Lead Investments Limited, a British Virgin Island company. Malte International Holding Limited is the sole shareholder and sole director of Front Lead Investments Limited. The Li Liu Family Trust is the sole shareholder of Malte International Holding Limited. HSBC International Trustee Limited is trustee of the Li Liu Family Trust and Limin Li and his family are beneficiaries of the Li Liu Family Trust.
- (2) Represents options to purchase 726,739 common shares granted to Barrie Holdings Limited, a British Virgin Island company whose sole shareholder and director is Dina Liu.
- (3) Represents 33.3% restricted shares and 66.7% options to purchase common shares with exercise price US\$10.30 granted to Universal Harmony Investment Limited, a British Virgin Island company whose sole shareholder and director is Alfred Tong.
- (4) Includes options held by a British Virgin Islands company in which the relevant individual is the sole shareholder and sole director.
- (5) Options were granted to other individuals on various dates.
- (6) Other individuals options expire on various dates.

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The following table sets forth information with respect to the beneficial ownership, within the meaning of Rule 13d-3 under the Exchange Act, of our common shares, as of the date of this prospectus, as adjusted to reflect the sale of the ADSs offered in this offering, by:

each of our directors and executive officers;

each person known to us to own beneficially more than 5% of our common shares; and

each selling shareholder participating in this offering.

The calculations in the table below assume there are 70,290,633 common shares outstanding as of the date of this prospectus and common shares outstanding immediately after the closing of this offering, assuming the underwriters do not exercise their option to purchase additional ADSs. Beneficial ownership is determined in accordance with the rules and regulations of the SEC. In computing the number of shares beneficially owned by a person and the percentage ownership of that person, we have included shares that the person has the right to acquire within 60 days of this offering, including through the exercise of any option, warrant or other right or the conversion of any other security. These shares, however, are not included in the computation of the percentage ownership of any other person.

	Common Shares Beneficially Owned Prior to This Offering		Common Shares Being Sold in This Offering	Common Shares Beneficially Owned After This Offering without Exercise of Over-Allotment Option		Common Shares Beneficially Owned After This Offering with Full Exercise of Over-Allotment Option		
	Number	%		Number	Number	%	Number	%
Directors and Executive Officers:								
Limin Li ⁽¹⁾	15,531,251	22.1	815,726	14,715,525	20.6	14,182,851	19.8	
Yanqing Liang ⁽²⁾	6,600,000	9.4	1,102,661	5,497,339	7.7	5,251,601	7.4	
Yunli Lou ⁽³⁾	8,050,090	11.5	1,229,200	6,820,890	9.6	6,820,890	9.5	
Dina Liu	*	*		*	*	*	*	
Alfred Tong	*	*		*	*	*	*	
Yi Zhang	*	*		*	*	*	*	
Xiaowei Chen	*	*		*	*	*	*	
Haijun Liu	*	*		*	*	*	*	
William Decker	*	*		*	*	*	*	
Xisong Tan	*	*		*	*	*	*	
All directors and executive officers as a group ⁽⁴⁾	31,419,475	43.8	3,147,587	28,271,888	38.9	27,493,476	37.8	
Principal and Selling Shareholders:								
Front Lead Investments Limited ⁽⁵⁾	15,531,251	22.1	815,726	14,715,525	20.6	14,182,851	19.8	
The OZ Funds ⁽⁶⁾	13,219,708	18.8	2,208,614	11,011,094	15.4	10,827,043	15.2	
Milestone I, II and III ⁽⁷⁾	6,708,408	9.5	1,024,300	5,684,108	8.0	5,684,108	8.0	
Milestone IV ⁽⁸⁾	1,341,682	1.9	204,900	1,136,782	1.6	1,136,782	1.6	
Massive Sheen Investments Limited ⁽⁹⁾	6,600,000	9.4	1,102,661	5,497,339	7.7	5,251,601	7.4	
IPROP Holdings Limited ⁽¹⁰⁾	4,472,272	6.4	747,181	3,725,091	5.2	3,712,272	5.2	
GSPS Asia Limited ⁽¹¹⁾	5,366,726	7.6	896,618	4,470,108	6.3	4,395,390	6.2	
Columbia Wanger Asset Management, L.P. ⁽¹²⁾	5,242,328	7.5		5,242,328	7.4	5,242,328	7.3	

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- * Upon exercise of all options granted, would beneficially own less than 1.0% of our outstanding common shares.
- (1) Includes 15,400,000 common shares owned by Front Lead Investments Limited and 131,251 common shares issuable upon the exercise of options granted to Front Lead Investments Limited that are exercisable

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- within 60 days of the date of this prospectus. Malte International Holdings Limited is the sole shareholder and sole director of Front Lead Investments Limited. The Li Liu Family Trust is the sole shareholder of Malte International Holders Limited. HSBC International Trustee Limited is the trustee of the Li Liu Family Trust and Limin Li and his family are beneficiaries of the Li Liu Family Trust. The business address of HSBC International Trustee Limited is Strathvale House, 2nd Floor, North Church Street, George Town, Grand Cayman, Cayman Islands and the business address of Mr. Li is c/o VisionChina Media Inc., 1/F Block No. 7, Champs Elysees, Nongyuan Road, Futian District, Shenzhen 518040, China.
- (2) Includes 6,600,000 common shares owned by Massive Sheen Investments Limited. Ms. Liang is the sole director and sole owner of Massive Sheen Investments Limited. The business address of Ms. Liang is c/o VisionChina Media Inc., 1/F Block No. 7, Champs Elysees, Nongyuan Road, Futian District, Shenzhen 518040, China.
 - (3) Includes 8,050,090 common shares held by Milestone I, Milestone II, Milestone III and Milestone IV. Yunli Lou, a managing director of Milestone Capital Partners Limited, disclaims beneficial ownership of shares held by Milestone I, Milestone II, Milestone III and Milestone IV except to the extent of her pecuniary interest in these shares.
 - (4) Include common shares held by all of our directors and executive officers as a group and common share issuable upon the exercise of all of the options that are exercisable within 60 days of the date of this prospectus held by all of our directors and executive officers.
 - (5) Malte International Holdings Limited is the sole shareholder and sole director of Front Lead Investments Limited. The Li Liu Family Trust is the sole shareholder of Malte International Holders Limited. HSBC International Trustee Limited is the trustee of the Li Liu Family Trust and Limin Li and his family are beneficiaries of the Li Liu Family Trust. The business address of HSBC International Trustee Limited is Strathvale House, 2nd Floor, North Church Street, George Town, Grand Cayman, Cayman Islands and the business address of Mr. Li is c/o VisionChina Media Inc., 1/F Block No. 7, Champs Elysees, Nongyuan Road, Futian District, Shenzhen 518040, China.
 - (6) Includes a total of 13,219,708 common shares held by (i) OZ Master Fund, Ltd., a limited liability company incorporated in the Cayman Islands, (ii) OZ Asia Master Fund, Ltd., a limited liability company incorporated in the Cayman Islands and (iii) OZ Global Special Investments Master Fund, L.P., a limited partnership organized under the laws of the Cayman Islands. Each of the OZ Funds uses the mailing address: c/o Goldman Sachs (Cayman) Trust Limited, P.O. Box 896, Harbour Centre, Georgetown, Grand Cayman, Cayman Islands. OZ Management, LP is the investment manager of OZ Master Fund, Ltd. and OZ Asia Master Fund, Ltd. OZ Advisors, LP is the general partner of OZ Global Special Investments Master Fund, L.P. Och-Ziff GP, LLC is the general partner of OZ Management LP and OZ Advisors LP. Daniel S. Och, as senior managing member of Och-Ziff GP, LLC, may be deemed to have investment and/or voting control of the shares held by the OZ Funds.
 - (7) Includes 6,708,408 common shares held by Milestone Mobile TV Media Holdings I Limited, Milestone Mobile TV Media Holdings II Limited, and Milestone Mobile TV Media Holdings III Limited, each of which is a limited liability company organized under the laws of the British Virgin Islands. Each of Milestone I, II and III has a mailing address of P.O. Box 957, Offshore Incorporation Center, Road Town, Tortola, British Virgin Islands. Milestone I, II and III are wholly owned by Milestone China Opportunities Fund II, L.P., an exempted limited partnership formed under the laws of the Cayman Islands. The general partner of the Milestone China Opportunities Fund II, L.P. is Milestone Capital Partners Limited, a limited liability company incorporated under the laws of the Cayman Islands. The sole director of Milestone Capital Partners Limited is Cherianne Limited, a company organized under the laws of the British Virgin Islands. Yuen Ho Wan and James Ngai, as all of the directors of Milestone Capital Partners Limited, share the investment and voting power of Cherianne Limited. Ms. Wan's and Mr. Ngai's business address is Room 1708 Dominion Centre, 43-59 Queen's Road East, Wanchai, Hong Kong.
 - (8) Includes 1,341,682 common shares held by Milestone Mobile TV Media Holdings IV Limited, a limited liability company organized under the laws of the British Virgin Islands. Milestone Mobile TV Media Holdings IV Limited's mailing address is P.O. Box 957, Offshore Incorporation Centre, Road Town, Tortola, British Virgin Islands. The controlling shareholder of Milestone IV is MMT Investments Limited, a limited liability company incorporated under the laws of British Virgin Islands. The address of MMT

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- Investment Limited is P.O. Box 957, Offshore Incorporation Centre, Road Town, Tortola, British Virgin Islands. The sole director of MMT Investments Limited is Ms. Yunli Lou, who has the sole investment and voting power of MMT Investments Limited. Ms. Lou's business address is Room 1708 Dominion Centre, 43-59 Queen's Road East, Wanchai, Hong Kong.
- (9) Yanqing Liang is the sole director and sole owner of Massive Sheen Investments Limited. The business address of Ms. Liang is c/o VisionChina Media Inc., 1/F Block No. 7, Champs Elysees, Nongyuan Road, Futian District, Shenzhen 518040, China.
- (10) Includes 4,472,272 common shares held by IPROP Holdings Limited, a limited liability company organized under the laws of the British Virgin Islands. The mailing address of IPROP Holdings Limited is Citco Building, Wickhams Cay, P.O. Box 662, Road Town, Tortola, British Virgin Islands. IPROP is wholly owned by VenFin Holdings Limited, which is registered in Jersey. VenFin Holdings Limited is wholly owned by RPII HOLDINGS Limited, which is registered in South Africa, which in turn is wholly owned by VenFin Limited, a widely held public company registered in South Africa whose shares trade in the over the counter market.
- (11) Includes 5,366,726 common shares held by GSPS Asia Limited, a limited liability company incorporated in Mauritius. GSPS Asia Limited's mailing address is Level Three, Alexander House, 35 Cybercity, Ebene, Mauritius. GSPS is a wholly owned subsidiary of the Goldman Sachs Group, Inc.
- (12) Based on the Form 13F filed by Columbia Wanger Asset Management, L.P. with the SEC for the quarter ended March 31, 2008, including 5,242,328 common shares held by Columbia Wanger Asset Management, L.P., which is a Delaware limited partnership, with the principal business address at 227 West Monroe Street, Suite 3000, Chicago, IL 60606.
- None of our existing shareholders has voting rights that differ from the voting rights of other shareholders. We are not aware of any arrangement that may, at a subsequent date, result in a change of control of our company. For information regarding our common shares and ADSs held or beneficially owned by persons in the United States, see Market Price of Our American Depositary Shares.

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RELATED PARTY TRANSACTIONS

We adopted an audit committee charter, which requires that the audit committee review all related party transactions on an ongoing basis and all such transactions be approved by the committee. Set forth below is a description of all of our related party transactions since our inception.

Transactions with Our Direct Investment Entities

Agreements to Purchase Advertising Time from and Sell Advertising Equipment to Our Direct Investment Entities

Under our arrangements with our local operating partners, we are responsible for the procurement of equipment for our direct investment entities, such as digital displays and digital television receivers. We sell the advertising equipment to our direct investment entities at negotiated prices and record the sales of advertising equipment to our direct investment entities as advertising equipment revenues on our financial statements. We had advertising equipment revenues of US\$0.3 million for the period from April 8, 2005 (date of inception) to December 31, 2005, representing our total revenues for that period, US\$1.8 million for the year ended December 31, 2006, representing 47.5% of our total revenues for 2006 and US\$1.9 million for the year ended December 31, 2007, representing 6.5% of our total revenues for 2007.

We also purchase advertising placement services from our direct investment entities at negotiated prices. For the period from April 8 to December 31, 2005, we did not pay any amounts to our direct investment entities for advertising placement services. For the year ended December 31, 2006, we paid a total amount of US\$0.01 million to our direct investment entities for the advertising placement services. For the year ended December 31, 2007, we paid a total amount of US\$0.3 million to our direct investment entities for the advertising placement services.

Exclusive Agency Agreements with Our Direct Investment Entities

We entered into an exclusive agency agreement with Shenzhen Mobile Television Co., Ltd., or Shenzhen Mobile, in December 2006. This exclusive agency agreement grants us the exclusive right to sell the advertising time on the mobile digital television network in Shenzhen for a term from January 1, 2006 to July 31, 2011. Under the agreement, we pay a pre-determined network rental fee each year to Shenzhen Mobile. We are responsible for installing additional digital television displays on the buses of the Shenzhen public transportation companies that have entered into agreements with Shenzhen Mobile. The cost in connection with such installation is deductible from the rental fees payable by us. The terms of this exclusive agency agreement have been negotiated on an arm's length basis.

We entered into an exclusive agency agreement with Chengdu China Digital Mobile Television Co., Ltd., or Chengdu CDMTV, in July 2007. This exclusive agency agreement grants us the exclusive right to sell the advertising time on the mobile digital television network in Chengdu for a term from January 1, 2008 to December 31, 2015. Under the agreement, we pay a pre-determined network rental fee each year to Chengdu CDMTV. Chengdu CDMTV is responsible for installing additional digital television displays on the buses of the Chengdu public transportation companies that have entered into agreements with Chengdu CDMTV. The terms of this exclusive agency agreement have been negotiated on an arm's length basis.

We entered into exclusive agency agreements with Wuxi Guangtong Digital Mobile Television Co., Ltd., or Wuxi Guangtong, in September 2007. These agreements grant us the exclusive right to sell a portion of the advertising time on the mobile digital television network in Wuxi to advertisers that are not from Wuxi for a term from October 1, 2007 to December 31, 2013. Under these agreements, we pay a pre-determined network rental fee each year to Wuxi Guangtong. Wuxi Guangtong is responsible for installing additional digital television displays on the buses of the Wuxi public transportation companies that have entered into agreements with Wuxi Guangtong. The terms of this exclusive agency agreement have been negotiated on an arm's length basis.

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We entered into an exclusive agency agreement with Ningbo China Digital Mobile Television Co., Ltd., or Ningbo CDMTV, in November 2007. This exclusive agency agreement grants us the exclusive right to sell the advertising time on the mobile digital television network in Ningbo for a term from January 1, 2008 to December 31, 2012. Under the agreement, we pay a pre-determined network rental fee each year to Ningbo CDMTV. Ningbo CDMTV is responsible for installing additional digital television displays on the buses of the Ningbo public transportation companies that have entered into agreements with Ningbo CDMTV. The terms of this exclusive agency agreement have been negotiated on an arm's length basis.

We entered into an exclusive agency agreement with Jilin Mobile Television Co., Ltd., or Jilin Mobile, in March 2008. This exclusive agency agreement grants us the exclusive right to sell the advertising time on the mobile digital television network in Changchun for a term from July 1, 2008 to June 30, 2014. Under the agreement, we pay a pre-determined network rental fee each year to Jilin Mobile. Jilin Mobile is responsible for installing additional digital television displays on the buses of the Changchun public transportation companies that have entered into agreements with Jilin Mobile. The terms of this exclusive agency agreement have been negotiated on an arm's length basis.

We entered into an exclusive agency agreement with Hubei China Digital Mobile Television Co., Ltd., or Hubei CDMTV, in March 2008. This exclusive agency agreement grants us the exclusive right to sell the advertising time on the mobile digital television network in Wuhan for a term from April 1, 2008 to March 31, 2014. Under the agreement, we pay a pre-determined network rental fee each year to Hubei CDMTV. Hubei CDMTV is responsible for installing additional digital television displays on the buses of the Wuhan public transportation companies that have entered into agreements with Hubei CDMTV. The terms of this exclusive agency agreement have been negotiated on an arm's length basis.

We entered into an exclusive agency agreement with Dalian China Digital Mobile Television Co., Ltd., or Dalian CDMTV, in March 2008. This exclusive agency agreement grants us the exclusive right to sell the advertising time on the mobile digital television network in Dalian for a term from April 1, 2008 to March 31, 2014. Under the agreement, we pay a pre-determined network rental fee each year to Dalian CDMTV. Dalian CDMTV is responsible for installing additional digital television displays on the buses of the Dalian public transportation companies that have entered into agreements with Dalian CDMTV. The terms of this exclusive agency agreement have been negotiated on an arm's length basis.

Transactions with Companies under Common Control with Us

Lease and loan with Meidi Zhiye

During the period from April 8, 2005 (date of inception) to December 31, 2005, we rented office space from Shenzhen Meidi Zhiye Development Co., Ltd., a former shareholder of CDMTV, or Meidi Zhiye, for the office space of our headquarters and CDMTV. The rent was determined based on negotiation. Limin Li, our founder and chairman of our board of directors, owns more than 10% of Meidi Zhiye's equity interest and is the chairman of Meidi Zhiye. The rental expenses totaled US\$26,037 for the period. During the same period, Meidi Zhiye leased another office building to our company for no consideration. The market value of the second lease was approximately US\$18,936 for the period. Such amount was then recorded as rental expenses and additional paid-in capital.

On March 5 and March 28, 2007, CDMTV borrowed an aggregate amount of approximately US\$2.2 million from Meidi Zhiye to fund its working capital requirements. On April 29, 2007, CDMTV repaid Meidi Zhiye the total amount of borrowing.

Transactions with Champs Elysees

In May 2005, Shenzhen Champs Elysees Investment Management Co., Ltd., or Champs Elysees, borrowed RMB10 million from CDMTV to buy a 49% equity interest in Shenzhen High Definition Digital TV

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Investment Co., Ltd. from Shenzhen Huazhihui Investment Co. Ltd., an unrelated third party. Champs Elysees then sold such equity interest to CDMTV for the same price. We used Champs Elysees to facilitate the acquisition of the equity interest in Shenzhen High Definition Digital TV Investment Co., Ltd. because when the acquisition was negotiated, CDMTV was in the process of being set up and did not have the legal capacity to enter into the transaction. In February 2006, Champs Elysees repaid the total amount of the loan to CDMTV. Limin Li, our founder and chairman of our board of directors, owns more than 10% of Champs Elysees' equity interest. Mr. Li is also a director and chairman of Champs Elysees.

In January 2005, before its inception, CDMTV entrusted Champs Elysees to purchase a 49% equity interest in Chengdu Digital Mobile Television Co., Ltd. for an aggregate consideration of RMB4.9 million. In December 2005, CDMTV purchased such equity interest from Champs Elysees for the same price.

In 2005, 2006 and 2007, CDMTV paid renovation charges of US\$79,830, US\$6,306 and US\$347,029, respectively, to Champs Elysees Renovations Co., Ltd., or Champs Elysees Renovations. Limin Li's wife is the chairwoman of Champs Elysees Renovations.

Transaction Related to Our Corporate Structure

Under applicable PRC laws, rules and regulations, to invest in the advertising industry, foreign investors must have at least two years of direct operations in the advertising industry as their core businesses outside of the PRC. We are a Cayman Islands corporation and a foreign legal person under PRC laws and we have not directly operated any advertising business outside of China. Therefore, we do not qualify under PRC regulations to directly own equity interest in advertising services providers. Accordingly, our subsidiary, CDTC, is ineligible to apply for the required licenses for providing advertising services in China. Our advertising business is operated through our contractual arrangements with CDMTV. CDTC and CDMTV entered into a series of agreements on March 30, 2006, including a technology and management service agreement, a domain name license agreement, a loan agreement, a proxy letter, an option agreement and an equity pledge agreement. CDTC and CDMTV entered into a series of new agreements on February 15, 2007, which replaced the agreements entered into on March 30, 2006 described in the preceding sentence. These contractual arrangements enable us to exercise effective control over CDMTV and its subsidiaries and receive substantially all of the economic benefits of CDMTV and its subsidiaries in consideration for the services provided by our subsidiary in China. We intend to continue our business operations in China upon the expiration of these contractual arrangements by renewing them or entering into new contractual arrangements if the then current PRC law does not allow us to directly operate advertising businesses in China. We believe that, under these contractual arrangements, we have sufficient control over CDMTV and its shareholders to renew or enter into new contractual arrangements prior to the expiration of the current arrangements on terms that would enable us to continue to operate our business in China after the expiration of the current arrangements.

Agreements That Transfer Economic Benefit to Us

Technology and Management Service Agreement. Pursuant to the technology and management service agreement entered into on February 15, 2007 between CDTC and CDMTV, CDTC provides technology consulting and management services related to the business operations of CDMTV. As consideration for such services, CDMTV has agreed to pay service fees as specified by CDTC in its fee notice to CDMTV from time to time. The fees payable are calculated based on hourly rates set forth in the agreement or otherwise agreed upon between the parties. The term of this agreement is 25 years from the date thereof. In the event of a default under this agreement, the non-defaulting party can terminate this agreement.

Domain Name License Agreement. Pursuant to the domain name license agreement entered into on February 15, 2007 between CDTC and CDMTV, CDTC grants CDMTV the exclusive right to use its domain names www.cdmtv.tv and www.cdmg.cn, in exchange for a fee based on the gross annual revenues of CDMTV. The fee is subject to periodic adjustments by the parties. The agreement has a term of 25 years, which may be

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terminated at any time or extended by CDTC at its discretion. In the event of a default under this agreement, the non-defaulting party can terminate this agreement.

Agreements That Provide Us Effective Control Over CDMTV and Its Subsidiaries

Loan Agreement. CDTC entered into a loan agreement with Limin Li and Yanqing Liang on February 15, 2007 that allows us to capitalize our PRC operating affiliates and which facilitates the establishment of our current corporate structure. CDTC made an interest-free loan of RMB50 million to the shareholders of CDMTV. The loan can be repaid only with the proceeds from the transfer of the shareholder's equity interest in CDMTV to CDTC or another person designated by CDTC pursuant to the Option Agreement as discussed below. In the event of a default under this agreement, the non-defaulting party can terminate this agreement.

Proxy Letter. Limin Li and Yanqing Liang signed certain proxy letters on February 15, 2007, pursuant to which Limin Li and Yanqing Liang have granted an employee of CDTC, who is a PRC citizen, the right to exercise all their voting rights as shareholders of CDMTV as provided under its articles of association. Such grant must be approved by CDTC and the grantee must be an employee of CDTC. If the grantee ceases to be an employee of CDTC, then the grantors will revoke the proxy and grant a similar proxy to a then-current employee of CDTC designated by CDTC. The proxy letters will remain effective until February 15, 2032.

Option Agreement. CDTC and Limin Li and Yanqing Liang entered into an option agreement on February 15, 2007, pursuant to which CDTC has an exclusive option to purchase, or to designate another qualified person to purchase, to the extent permitted by PRC law and foreign investment policies, part or all of the equity interests in CDMTV owned by Limin Li and Yanqing Liang. The purchase price for the entire equity interest shall be the greater of (i) RMB50 million and (ii) the minimum price permitted by applicable PRC law and agreed upon by the parties. The option agreement remains in effect until the completion of the transfer of all the shares in accordance with the option agreement. In the event of a default under this agreement, the non-defaulting party can terminate this agreement.

Equity Pledge Agreement. Pursuant to an equity pledge agreement entered into on February 15, 2007, Limin Li and Yanqing Liang have pledged their equity interest in CDMTV to CDTC to secure their obligations under the loan agreement and CDMTV's obligations under the technology and management service agreement and domain name license agreement, each as described above. In addition, shareholders of CDMTV agree not to transfer, sell, pledge, dispose of or create any encumbrance on any equity interests in CDMTV that would affect the pledgee's interests. The equity pledge agreement will expire when the shareholders fully perform their obligations under the agreements described above.

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DESCRIPTION OF SHARE CAPITAL

We are a Cayman Islands exempted company with limited liability and our affairs are governed by our memorandum and articles of association, as amended and restated from time to time, and the Companies Law (as amended) of the Cayman Islands, or the Companies Law.

As of the date of this prospectus, our authorized share capital consists of 200,000,000 common shares, with a par value of US\$0.0001 each. As of June 30, 2008, there were 69,198,482 common shares issued and outstanding.

The following are summaries of material provisions of our third amended and restated memorandum and articles of association and the Companies Law insofar as they relate to the material terms of our common shares. The following discussion primarily concerns common shares and the rights of holders of common shares. Holders of our ADSs will not be treated as our shareholders and their rights are subject to the deposit agreement. See Description of American Depositary Shares.

Common Shares

General

All of our outstanding common shares are fully paid and non-assessable. Certificates representing the common shares are issued in registered form. Our shareholders who are non-residents of the Cayman Islands may freely hold and transfer their common shares.

Dividends

The holders of our common shares are entitled to such dividends as may be declared by our board of directors subject to the Companies Law.

Voting Rights

Each holder of common shares is entitled to vote on all matters upon which the common shares are entitled to vote. Voting at any meeting of shareholders is by a poll. Each holder of common shares is entitled to have one vote for each common share registered in his or her name on the register of members.

A quorum required for a meeting of shareholders consists of shareholders who hold at least 50% of our common shares at the meeting present in person or by proxy or, if a corporation or other non-natural person, by its duly authorized representative. Shareholders' meetings are held annually and may be convened by our board of directors on its own initiative or upon a request to the board of directors by shareholders holding in aggregate at least 10% of our common shares. Advance notice of at least seven days is required for the convening of our annual general meeting and other shareholders meetings.

An ordinary resolution to be passed by the shareholders requires the affirmative vote of a simple majority of the votes attaching to the common shares cast in a general meeting, while a special resolution requires the affirmative vote of no less than two-thirds of the votes cast attaching to the outstanding common shares. A special resolution will be required for important matters such as a change of name or making changes to our third amended and restated memorandum and articles of association.

Transfer of Common Shares

Subject to the restrictions of our third amended and restated articles of association, as applicable, any of our shareholders may transfer any or all of his or her common shares by an instrument of transfer in the usual or common form, or in a form prescribed by the Nasdaq Global Market, or any other form approved by our board of directors.

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Our board of directors may, in its absolute discretion, decline to register any transfer of any common share which is not fully paid up or on which we have a lien. Our board of directors may also decline to register any transfer of any common share unless:

the instrument of transfer is lodged with us, accompanied by the certificate for the common shares to which it relates and such other evidence as our board of directors may reasonably require to show the right of the transferor to make the transfer;

the instrument of transfer is in respect of only one class of common shares;

the instrument of transfer is properly stamped, if required;

in the case of a transfer to joint holders, the number of joint holders to whom the common share is to be transferred does not exceed four; and

the common shares transferred are free of any lien in favor of us.

If our directors refuse to register a transfer they shall, within two months after the date on which the instrument of transfer was lodged, send to each of the transferor and the transferee notice of such refusal.

The registration of transfers may, on 14 days' notice given by advertisement in one or more newspapers or by electronic means, be suspended and the register may be closed at such times and for such periods as our board of directors may from time to time determine, provided, however, that the registration of transfers shall not be suspended and the register shall not be closed for more than 30 days in any year.

Liquidation

On a return of capital on winding up or otherwise (other than on conversion, redemption or purchase of common shares), assets available for distribution among the holders of common shares shall be distributed among the holders of the common shares on a pro rata basis. If our assets available for distribution are insufficient to repay all of the paid-up capital, the assets will be distributed so that the losses are borne by our shareholders proportionately.

Calls on Common Shares and Forfeiture of Common Shares

Our board of directors may from time to time make calls upon shareholders for any amounts unpaid on their common shares in a notice served to such shareholders at least 14 days prior to the specified time of payment. The common shares that have been called upon and remain unpaid are subject to forfeiture.

Redemption of Common Shares

Subject to the provisions of the Companies Law, we may issue shares on terms that are subject to redemption, at our option or at the option of the holders of these shares, on such terms and in such manner as our board of directors may determine. Common shares represented by the ADSs offered in this offering are not redeemable at our option or at the option of holders of these common shares.

Variations of Rights of Shares

All or any of the special rights attached to any class of shares may, subject to the provisions of the Companies Law, be varied either with the unanimous written consent of the holders of the issued shares of that class or with the sanction of a special resolution passed at a general meeting of the holders of the shares of that class. Consequently, the rights of any class of shares cannot be detrimentally altered without a majority vote of all of the shares in that class. The rights conferred upon the holders of the shares of any class issued with preferred or other rights shall not, unless otherwise expressly provided by the terms of issue of the shares of that class, be deemed to be varied by the creation or issue of further shares ranking *pari passu* with such existing

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class of shares. The rights of holders of common shares shall not be deemed to be varied by the creation or issue of shares with preferred or other rights which may be effected by the directors as provided in the articles of association without any vote or consent of the holders of common shares.

General Meetings of Shareholders

Our board of directors may, and shall on the requisition of shareholders holding at least 10% of the paid up capital of our company carrying voting rights at general meetings, proceed to convene a general meeting of such shareholders. If the directors do not within 21 days from the deposit of the requisition duly proceed to convene a general meeting, which will be held within a further period of 21 days, the requisitioning shareholders, or any of them holding more than 50% of the total voting rights of all of the requisitioning shareholders, may themselves convene a general meeting. Any such general meeting must be convened within three months after the expiration of such 21-day period.

Inspection of Books and Records

Holders of our common shares have no general right under Cayman Islands law to inspect or obtain copies of our list of shareholders or our corporate records. However, we will provide our shareholders with annual audited financial statements. See [Where You Can Find Additional Information](#).

Exempted Company

We are an exempted company with limited liability under the Companies Law. The Companies Law distinguishes between ordinary resident companies and exempted companies. Any company that is registered in the Cayman Islands but conducts business mainly outside of the Cayman Islands may apply to be registered as an exempted company. The requirements for an exempted company are essentially the same as for an ordinary company except that an exempted company:

does not have to file an annual return of its shareholders with the Registrar of Companies;

is not required to open its register of members for inspection;

does not have to hold an annual general meeting;

may issue negotiable or bearer shares or shares with no par value;

may obtain an undertaking against the imposition of any future taxation (such undertakings are typically given for 20 years in the first instance);

may register by way of continuation in another jurisdiction and be deregistered in the Cayman Islands;

may register as a limited duration company; and

may register as a segregated portfolio company.

Limited liability means that the liability of each shareholder is limited to the amount unpaid by the shareholder on the shares of the company.

Differences in Corporate Law

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The Companies Law is modeled after that of English law but does not follow many recent English law statutory enactments. In addition, the Companies Law differs from laws applicable to United States corporations and their shareholders. Set forth below is a summary of the significant differences between the provisions of the Companies Law applicable to us and the laws applicable to companies incorporated in the State of Delaware.

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Mergers and Similar Arrangements

Cayman Islands law does not provide for mergers as that term is understood under the Delaware General Corporate Law. However, there are statutory provisions that facilitate the reconstruction and amalgamation of companies, provided that the arrangement is approved by a majority in number of each class of shareholders and creditors with whom the arrangement is to be made, and who must in addition represent three-fourths in value of each such class of shareholders or creditors, as the case may be, that are present and voting either in person or by proxy at a meeting, or meetings, convened for that purpose. The convening of the meetings and the subsequent arrangements must be sanctioned by the Grand Court of the Cayman Islands. While a dissenting shareholder has the right to express to the court the view that the transaction ought not to be approved, the court can be expected to approve the arrangement if it determines that:

the statutory provisions as to the majority vote have been met;

the shareholders have been fairly represented at the meeting in question;

the arrangement is such that a businessman would reasonably approve; and

the arrangement is not one that would more properly be sanctioned under some other provision of the Companies Law. When a takeover offer is made and accepted by holders of 90% of the shares within four months, the offerer may, within a two-month period, require the holders of the remaining shares to transfer such shares pursuant to the terms of the offer. An objection can be made to the Grand Court of the Cayman Islands but this is unlikely to succeed unless there is evidence of fraud, bad faith or collusion.

If the arrangement and reconstruction is thus approved, the dissenting shareholder would have no rights comparable to appraisal rights, which would otherwise ordinarily be available to dissenting shareholders of Delaware corporations, providing rights to receive payment in cash for the judicially determined value of the shares.

Shareholders Suits

We are not aware of any reported class action or derivative action having been brought in a Cayman Islands court. In principle, we will normally be the proper plaintiff and a derivative action may not be brought by a minority shareholder. However, based on English authorities, which would in all likelihood be of persuasive authority in the Cayman Islands, there are exceptions to the foregoing principle, including when:

a company acts or proposes to act illegally or *ultra vires*;

the act complained of, although not *ultra vires*, could be effected duly if authorized by a special resolution that has not been obtained; and

those who control the company are perpetrating a fraud on the minority.

Indemnification of Directors and Executive Officers and Limitation of Liability

Cayman Islands law does not limit the extent to which a company's memorandum and articles of association may provide for indemnification of directors and officers, except to the extent any such provision may be held by the Cayman Islands courts to be contrary to public policy, such as to provide indemnification against civil fraud or the consequences of committing a crime. Our third amended and restated memorandum and articles of association permit indemnification of directors and officers for losses, damages, costs and expenses incurred in their capacities as such unless such losses or damages arise from dishonesty, fraud or default of such directors or officers. This standard of conduct is generally the same as permitted under the Delaware General Corporation Law for a Delaware corporation. In addition, we have entered into indemnification

agreements with

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our directors and senior executive officers that provide such persons with additional indemnification beyond that provided in our third amended and restated memorandum and articles of association.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to our directors, officers or persons controlling us under the foregoing provisions, we have been informed that in the opinion of the U.S. Securities and Exchange Commission, or SEC, such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

Directors' Fiduciary Duties

Under Delaware corporate law, a director of a Delaware corporation has a fiduciary duty to the corporation and its shareholders. This duty has two components: the duty of care and the duty of loyalty. The duty of care requires that a director act in good faith, with the care that an ordinarily prudent person would exercise under similar circumstances. Under this duty, a director must inform himself of, and disclose to shareholders, all material information reasonably available regarding a significant transaction. The duty of loyalty requires that a director acts in a manner he reasonably believes to be in the best interests of the corporation. He must not use his corporate position for personal gain or advantage. This duty prohibits self-dealing by a director and mandates that the best interest of the corporation and its shareholders take precedence over any interest possessed by a director, officer or controlling shareholder and not shared by the shareholders generally. In general, actions of a director are presumed to have been made on an informed basis, in good faith and in the honest belief that the action taken was in the best interests of the corporation. However, this presumption may be rebutted by evidence of a breach of one of the fiduciary duties. Should such evidence be presented concerning a transaction by a director, the director must prove the procedural fairness of the transaction, and that the transaction was of fair value to the corporation.

As a matter of Cayman Islands law, a director of a Cayman Islands company is in the position of a fiduciary with respect to the company and therefore it is considered that he owes the following duties to the company a duty to act bona fide in the best interests of the company, a duty not to make a profit based on his position as director (unless the company permits him to do so) and a duty not to put himself in a position where the interests of the company conflict with his personal interests or his duty to a third party. A director of a Cayman Islands company owes to the company a duty to act with skill and care. It was previously considered that a director need not exhibit in the performance of his duties a greater degree of skill than may reasonably be expected from a person of his knowledge and experience. However, English and Commonwealth courts have moved towards an objective standard with regard to the required skill and care and these authorities are likely to be followed in the Cayman Islands.

Shareholder Action by Written Consent

Under the Delaware General Corporation Law, a corporation may eliminate the right of shareholders to act by written consent by amendment to its certificate of incorporation. Cayman Islands law and our third amended and restated articles of association provide that shareholders may approve corporate matters by way of a unanimous written resolution signed by or on behalf of each shareholder who would have been entitled to vote on such matter at a general meeting without a meeting being held.

Shareholder Proposals

Under the Delaware General Corporation Law, a shareholder has the right to put any proposal before the annual meeting of shareholders, provided it complies with the notice provisions in the governing documents. A special meeting may be called by the board of directors or any other person authorized to do so in the governing documents, but shareholders may be precluded from calling special meetings.

Cayman Islands law and our third amended and restated articles of association allow our shareholders holding not less than 10% of the paid-up voting share capital of the company to requisition a shareholder s

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meeting. As an exempted Cayman Islands company, we are not obliged by law to call shareholders' annual general meetings. However, our third amended and restated articles of association require us to call such meetings.

Cumulative Voting

Under the Delaware General Corporation Law, cumulative voting for elections of directors is not permitted unless the corporation's certificate of incorporation specifically provides for it. Cumulative voting potentially facilitates the representation of minority shareholders on a board of directors since it permits the minority shareholder to cast all the votes to which the shareholder is entitled on a single director, which increases the shareholder's voting power with respect to electing such director. There are no prohibitions in relation to cumulative voting under the laws of the Cayman Islands but our third amended and restated articles of association do not provide for cumulative voting. As a result, our shareholders are not afforded any less protections or rights on this issue than shareholders of a Delaware corporation.

Removal of Directors

Under the Delaware General Corporation Law, a director of a corporation with a classified board may be removed only for cause with the approval of a majority of the outstanding shares entitled to vote, unless the certificate of incorporation provides otherwise. Under our third amended and restated articles of association, directors may be removed without cause, but only by the vote of holders of two-thirds of our shares, cast at a general meeting, or the unanimous written resolution of all shareholders, or with cause, by the ordinary resolution or the unanimous written resolution of all shareholders.

Transactions with Interested Shareholders

The Delaware General Corporation Law contains a business combination statute applicable to Delaware corporations whereby, unless the corporation has specifically elected not to be governed by such statute by amendment to its certificate of incorporation, it is prohibited from engaging in certain business combinations with an interested shareholder for three years following the date that such person becomes an interested shareholder. An interested shareholder generally is a person or a group who or which owns or owned 15% or more of the target's outstanding voting stock within the past three years. This has the effect of limiting the ability of a potential acquirer to make a two-tiered bid for the target in which all shareholders would not be treated equally. The statute does not apply if, among other things, prior to the date on which such shareholder becomes an interested shareholder, the board of directors approves either the business combination or the transaction which resulted in the person becoming an interested shareholder. This encourages any potential acquirer of a Delaware corporation to negotiate the terms of any acquisition transaction with the target's board of directors.

Cayman Islands law has no comparable statute. As a result, we cannot avail ourselves of the types of protections afforded by the Delaware business combination statute. However, although Cayman Islands law does not regulate transactions between a company and its significant shareholders, it does provide that such transactions must be entered into bona fide in the best interests of the company and not with the effect of constituting a fraud on the minority shareholders.

Dissolution; Winding up

Under the Delaware General Corporation Law, unless the board of directors approves the proposal to dissolve, dissolution must be approved by shareholders holding 100% of the total voting power of the corporation. Only if the dissolution is initiated by the board of directors may it be approved by a simple majority of the corporation's outstanding shares. Delaware law allows a Delaware corporation to include in its certificate of incorporation a supermajority voting requirement in connection with dissolutions initiated by the board. Under the Companies Law and our third amended and restated articles of association, our company may be dissolved, liquidated or wound up by the vote of holders of two-thirds of our shares voting at a meeting or the unanimous written resolution of all shareholders.

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Variation of Rights of Shares

Under the Delaware General Corporation Law, a corporation may vary the rights of a class of shares with the approval of a majority of the outstanding shares of such class, unless the certificate of incorporation provides otherwise. Under Cayman Islands law and our third amended and restated memorandum and articles of association, if our share capital is divided into more than one class of shares, we may vary the rights attached to any class only with the vote at a class meeting of holders of two-thirds of the shares of such class or the unanimous written resolution of all shareholders.

Amendment of Governing Documents

Under the Delaware General Corporation Law, a corporation's governing documents may be amended with the approval of a majority of the outstanding shares entitled to vote, unless the certificate of incorporation provides otherwise. As permitted by Cayman Islands law, our third amended and restated memorandum and articles of association may only be amended with a special resolution of all shareholders.

Rights of Non-resident or Foreign Shareholders

There are no limitations imposed by our third amended and restated memorandum and articles of association on the rights of non-resident or foreign shareholders to hold or exercise voting rights on our shares. In addition, there are no provisions in our third amended and restated memorandum and articles of association governing the ownership threshold above which shareholder ownership must be disclosed.

Registration Rights

Pursuant to our amended and restated shareholders agreement dated March 9, 2007, we have granted certain registration rights to holders of our registrable securities, which include our preferred shares and common shares as of the date of the shareholders agreement. Set forth below is a description of the registration rights granted under the agreement.

Demand Registration Rights

At any time after April 12, 2008, holders of at least 15% of registrable securities have the right to demand that we file a registration statement covering the offer and sale of their securities. We, however, are not obligated to effect a demand registration (1) if we have already effected two demand registrations, (2) if we notify the requesting holder of the registrable securities of our intention to make a public offering within 60 days, or (3) during the period beginning on the filing date, and ending on the 180th day after the effective date of a registration statement relating to, a public offering of our securities initiated by us. We have the right to defer filing of a registration statement for up to 120 days if we provide the requesting holders a certificate signed by our chief executive officer stating that in the good faith judgment of the board of directors the filing of a registration statement will be detrimental to us and our shareholders, but we cannot exercise the deferral right more than once in any 12-month period.

Piggyback Registration Rights

If we propose to file a registration statement for a public offering of our securities other than, among other things, relating to a stock option plan or a corporate reorganization, then we must offer holders of registrable securities an opportunity to include in the registration all or any part of their registrable securities. The underwriters of any underwritten offering will have the right to limit the number of shares with registration rights to be included in the registration statement.

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Form F-3 Registration Rights

When we are eligible for use of Form F-3, holders of our registrable securities then outstanding have the right to request that we file a registration statement under Form F-3. We are not obligated to file a registration statement on Form F-3 (1) if we notify the requesting holder of the registrable securities of our intention to make a public offering within 60 days, or (2) during the period beginning on the filing date of, and ending on the 180th day after the effective date of a registration statement relating to, a public offering of our securities initiated by us. We have the right to defer filing of a registration statement for up to 120 days if we provide the requesting holders a certificate signed by our chief executive officer stating that in the good faith judgment of the board of directors the filing of a registration statement will be detrimental to us and our shareholders, but we cannot exercise the deferral right more than once in any 12-month period.

Expenses of Registration

We will pay all expenses, other than underwriting discounts and commissions, relating to any demand, piggyback or F-3 registration.

For more detailed information relating to the registration rights, see the amended and restated shareholders agreement filed as an exhibit to the registration statement that includes this prospectus.

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DESCRIPTION OF AMERICAN DEPOSITARY SHARES

The Bank of New York Mellon, or BNY, has agreed to act as the depository for the American depositary shares. The Bank of New York Mellon's depository offices are located at 101 Barclay Street, New York, New York 10286. American depositary shares are frequently referred to as ADSs and represent ownership interests in securities that are on deposit with the depository. ADSs may be represented by certificates that are commonly known as American Depositary Receipts or ADRs. The depository typically appoints a custodian to safekeep the securities on deposit. In this case, the custodian is the Hong Kong and Shanghai Banking Corporation Limited.

We have appointed BNY as depository pursuant to a deposit agreement. A copy of the deposit agreement is on file with the SEC under cover of a Registration Statement on Form F-6. You may obtain a copy of the deposit agreement from the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549 and from the SEC's website (www.sec.gov).

We are providing you with a summary description of the material terms of the ADSs and of your material rights as an owner of ADSs. Please remember that summaries by their nature lack the precision of the information summarized and that the rights and obligations of an owner of ADSs will be determined by reference to the terms of the deposit agreement and not by this summary. We urge you to review the deposit agreement in its entirety. The portions of this summary description that are italicized describe matters that may be relevant to the ownership of ADSs but that may not be contained in the deposit agreement.

Each ADS represents the right to receive one common share, par value US\$0.0001 per share, on deposit with the custodian. An ADS also represents the right to receive any other property received by the depository or the custodian on behalf of the owner of the ADS but that has not been distributed to the owners of ADSs because of legal restrictions or practical considerations.

If you become an owner of ADSs, you will become a party to the deposit agreement and therefore will be bound to its terms and if applicable, to the terms of any ADR that represents your ADSs. The deposit agreement and the ADR specify our rights and obligations as well as your rights and obligations as owner of ADSs and those of the depository. The deposit agreement and the ADRs are governed by New York law. However, our obligations to the holders of common shares will continue to be governed by the laws of the Cayman Islands, which may be different from the laws of the United States.

In addition, applicable laws and regulations may require you to satisfy reporting requirements and obtain regulatory approvals in certain circumstances. You are solely responsible for complying with such reporting requirements and obtaining such approvals. Neither the depository, the custodian, us nor any of their or our respective agents or affiliates shall be required to take any actions whatsoever on behalf of you to satisfy such reporting requirements or obtain such regulatory approvals under applicable laws and regulations.

As an owner of ADSs, you may hold your ADSs either by means of an ADR registered in your name, through a brokerage or safekeeping account, or through an account established by the depository in your name reflecting the registration of uncertificated ADSs directly on the books of the depository (commonly referred to as the direct registration system or DRS). The direct registration system reflects the uncertificated (book-entry) registration of ownership of ADSs by the depository. Under the direct registration system, ownership of ADSs is evidenced by periodic statements issued by the depository to the holders of the ADSs. The direct registration system includes automated transfers between the depository and The Depository Trust Company (DTC), the central book-entry clearing and settlement system for equity securities in the United States. If you decide to hold your ADSs through your brokerage or safekeeping account, you must rely on the procedures of your broker or bank to assert your rights as ADS owner. Banks and brokers typically hold securities such as the ADSs through clearing and settlement systems such as DTC. The procedures of such clearing and settlement systems may limit your ability to exercise your rights as an owner of ADSs. Please consult with your broker or bank if you have any questions concerning these limitations and procedures. All ADSs held through DTC will be

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registered in the name of a nominee of DTC. This summary description assumes you have opted to own the ADSs directly registered in your name and, as such, we will refer to you as the holder. When we refer to you, we assume the reader owns ADSs and will own ADSs at the relevant time.

Dividends and Distributions

As a holder, you generally have the right to receive the distributions we make on the securities deposited with the custodian. Your receipt of these distributions may be limited, however, by practical considerations and legal limitations. Holders will receive such distributions under the terms of the deposit agreement in proportion to the number of ADSs held as of a specified record date.

Distributions of Cash

Whenever we make a cash distribution for the securities on deposit with the custodian, we will deposit the funds with the custodian. Upon receipt of confirmation of the deposit of the requisite funds, the depository will arrange for the funds to be converted into U.S. dollars and for the distribution of the U.S. dollars to the holders, subject applicable laws and regulations.

The conversion into U.S. dollars will take place only if practicable and can be made on a reasonable basis and if the U.S. dollars are transferable to the United States. The amounts distributed to holders will be net of the fees, expenses, taxes and governmental charges payable by holders under the terms of the deposit agreement. The depository will apply the same method for distributing the proceeds of the sale of any property (such as undistributed rights) held by the custodian in respect of securities on deposit.

The distribution of cash will be made net of the fees, expenses, taxes and governmental charges payable by holders under the terms of the deposit agreement.

Distributions of Shares

Whenever we make a free distribution of common shares in respect of the securities on deposit with the custodian, we will deposit the applicable number of common shares with the custodian. Upon receipt of confirmation of such deposit, the depository will *either* distribute to holders new ADSs representing the common shares deposited *or* modify the ADS-to-common shares ratio, in which case each ADS you hold will represent rights and interests in the additional common shares so deposited. Only whole new ADSs will be distributed. Fractional entitlements will be sold and the proceeds of such sale will be distributed as in the case of a cash distribution.

The distribution of new ADSs or the modification of the ADS-to-common shares ratio upon a distribution of common shares will be made net of the fees, expenses, taxes and governmental charges payable by holders under the terms of the deposit agreement. In order to pay such fees, expenses, taxes or governmental charges, the depository may sell all or a portion of the new common shares so distributed.

No such distribution of new ADSs will be made if it would violate a law or if it is not operationally practicable. If the depository does not distribute new ADSs as described above, it may sell the common shares received upon the terms described in the deposit agreement and will distribute the proceeds of the sale as in the case of a distribution of cash.

Distributions of Rights

Whenever we intend to distribute rights to purchase additional common shares, we will give prior notice to the depository and we will assist the depository in determining whether it is lawful and reasonably practicable to distribute rights to purchase additional ADSs to holders.

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The depositary may establish procedures to distribute rights to purchase additional ADSs to holders and to enable such holders to exercise such rights if it is lawful and reasonably practicable to make the rights available to holders of ADSs, and if we provide all of the documentation contemplated in the deposit agreement (such as opinions to address the lawfulness of the transaction). You may have to pay fees, expenses, taxes and other governmental charges to subscribe for the new ADSs upon the exercise of your rights. The depositary is not obligated to establish procedures to facilitate the distribution and exercise by holders of rights to purchase new common shares other than in the form of ADSs.

The depositary will *not* distribute the rights to you if:

We do not timely request that the rights be distributed to you or we request that the rights not be distributed to you;

We fail to deliver satisfactory documents to the depositary; or

It is not reasonably practicable to distribute the rights.

The depositary may sell the rights that are not exercised or not distributed if such sale is lawful and reasonably practicable. The proceeds of such sale will be distributed to holders as in the case of a cash distribution. If the depositary is unable to sell the rights, it will allow the rights to lapse.

Other Distributions

Whenever we intend to distribute property other than cash, common shares or rights to purchase additional common shares, we will notify the depositary in advance. We will assist the depositary in determining whether such distribution to holders is lawful and reasonably practicable.

If it is reasonably practicable to distribute such property to you and if we provide all of the documentation contemplated in the deposit agreement, the depositary will distribute the property to the holders in a manner it deems practicable.

The distribution will be made net of fees, expenses, taxes and governmental charges payable by holders under the terms of the deposit agreement. In order to pay such fees, expenses, taxes and governmental charges, the depositary may sell all or a portion of the property received.

The depositary will *not* distribute the property to you and will sell the property if:

We do not deliver satisfactory documents to the depositary; or

The depositary determines that all or a portion of the distribution to you is not reasonably practicable.

The proceeds of such a sale will be distributed to holders as in the case of a cash distribution.

Changes Affecting Common Shares

The common shares held on deposit for your ADSs may change from time to time. For example, there may be a change in nominal or par value, a split-up, cancellation, consolidation or reclassification of such common shares or a recapitalization, reorganization, merger, consolidation or sale of assets.

If any such change were to occur, your ADSs would, to the extent permitted by law, represent the right to receive the property received or exchanged in respect of the common shares held on deposit. The depositary may in such circumstances deliver new ADSs to you, amend the deposit agreement, the ADRs and the applicable Registration Statement(s) on Form F-6, call for the exchange of your existing ADSs for new ADSs and take any

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other actions that are appropriate to reflect as to the ADSs the change affecting the common shares. If the depositary may not lawfully distribute such property to you, the depositary may sell such property and distribute the net proceeds to you as in the case of a cash distribution.

Issuance of ADSs Upon Deposit of Common Shares

The depositary will deliver ADSs on your behalf if you or your broker deposit common shares with the custodian. The depositary will deliver these ADSs to the person you indicate only after you pay any applicable issuance fees and any charges and taxes payable for the transfer of the common shares to the custodian. Your ability to deposit common shares and receive ADSs may be limited by U.S. and Cayman Islands legal considerations applicable at the time of deposit.

The issuance of ADSs may be delayed until the depositary or the custodian receives confirmation that all required approvals have been given and that the common shares have been duly transferred to the custodian. The depositary will only deliver ADSs in whole numbers.

When you make a deposit of common shares, you will be responsible for transferring good and valid title to the depositary. As such, you will be deemed to represent and warrant that:

The common shares are duly authorized, validly issued, fully paid, non-assessable.

All preemptive (and similar) rights, if any, with respect to such common shares have been validly waived or exercised.

You are duly authorized to deposit the common shares.

The common shares presented for deposit are not, and the ADSs issuable upon such deposit will not be, restricted securities under the Securities Act of 1933.

Transfer, Combination and Split Up of ADRs

As an ADR holder, you will be entitled to transfer your ADSs and to combine or split up your ADRs and the ADSs evidenced thereby. For transfers of ADSs, you will have to surrender the ADRs, if any, to be transferred to the depositary and also must:

ensure that the surrendered ADR certificate is properly endorsed or otherwise in proper form for transfer;

provide such proof of identity and genuineness of signatures as the depositary deems appropriate;

provide any transfer stamps required by the State of New York or the United States; and

pay all applicable fees, charges, expenses, taxes and other government charges payable by ADS holders pursuant to the terms of the deposit agreement, upon the transfer of ADSs.

To have your ADRs either combined or split up, you must surrender the ADRs in question to the depositary with you request to have them combined or split up, and you must pay all applicable fees, charges and expenses payable by ADR holders, pursuant to the terms of the deposit agreement, upon a combination or split up of ADRs.

Withdrawal of Common Shares Upon Cancellation of ADSs

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As a holder, you will be entitled to present your ADSs to the depositary for cancellation and then receive the corresponding number of underlying common shares at the custodian's offices. Your ability to withdraw the common shares may be limited by U.S. and Cayman Islands considerations applicable at the time

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of withdrawal. In order to withdraw the common shares represented by your ADSs, you will be required to pay to the depositary the fees for cancellation of ADSs and any charges and taxes payable upon the transfer of the common shares being withdrawn. You assume the risk for delivery of all funds and securities upon withdrawal. Once canceled, the ADSs will not have any rights under the deposit agreement.

If you hold ADSs registered in your name, the depositary may ask you to provide proof of identity and genuineness of any signature and such other documents as the depositary may deem appropriate before it will cancel your ADSs. The withdrawal of the common shares represented by your ADSs may be delayed until the depositary receives satisfactory evidence of compliance with all applicable laws and regulations. Please keep in mind that the depositary will only accept ADSs for cancellation that represent a whole number of securities on deposit.

You will have the right to withdraw the securities represented by your ADSs at any time except for:

Temporary delays that may arise because (i) the transfer books for the common shares or ADSs are closed, or (ii) common shares are immobilized on account of a shareholders' meeting or a payment of dividends.

Obligations to pay fees, taxes and similar charges.

Restrictions imposed because of laws or regulations applicable to ADSs or the withdrawal of securities on deposit.

The deposit agreement may not be modified to impair your right to withdraw the securities represented by your ADSs except to comply with mandatory provisions of law.

Interchanging Between Certificated and Uncertificated ADSs

As a holder, you may surrender your ADR to the depositary for the purpose of exchanging your ADR for uncertificated ADSs. The depositary will cancel that ADR and will send you a statement confirming that you are the owner of uncertificated ADSs. Alternatively, upon receipt by the depositary of a proper instruction from a holder of uncertificated ADSs requesting the exchange of uncertificated ADSs for certificated ADSs, the depositary will execute and deliver to you an ADR evidencing those ADSs.

Voting Rights

As a holder, you generally have the right under the deposit agreement to instruct the depositary to exercise the voting rights for the common shares represented by your ADSs. The voting rights of holders of common shares are described in Description of Share Capital.

At our request and timely notification, the depositary will distribute to you any notice of a shareholders' meeting received from us together with information explaining how to instruct the depositary to exercise the voting rights of the securities represented by ADSs.

If the depositary timely receives voting instructions from a holder of ADSs, it will endeavor to vote the securities represented by the holder's ADSs in accordance with such voting instructions.

If the depositary does not timely receive voting instructions from a holder of ADSs and we have timely provided the depositary with our notice of meeting and related materials, that holder will be deemed, and the depositary will deem that holder to have instructed the depositary to give a discretionary proxy to a person designated by us to vote the common shares represented by the ADSs at our discretion, unless:

we have instructed the depositary that we do not wish a discretionary proxy to be given;

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we have informed the depositary that there is substantial opposition to a matter to be voted on at the meeting; or

a matter to be voted on at the meeting would have a material adverse impact on shareholders.

Please note that the ability of the depositary to carry out voting instructions may be limited by practical and legal limitations and the terms of the securities on deposit. We cannot assure you that you will receive voting materials in time to enable you to return voting instructions to the depositary in a timely manner. Securities for which no voting instructions have been received may not be voted.

Fees and Charges

As an ADS holder, you will be required to pay the following service fees to the depositary:

Service	Fees
Issuance of ADSs	Up to US\$0.05 per ADS issued
Cancellation of ADSs	Up to US\$0.05 per ADS cancelled
Distribution of cash dividends or other cash distributions	Up to US\$0.02 per ADS held
Distribution of ADSs pursuant to stock dividends, free stock distributions or exercise of rights.	Up to US\$0.05 per ADS issued
Distribution of securities other than ADSs or rights to purchase additional ADSs	Equivalent to the fee that would apply if the distributed securities had been deposited for issuance of ADSs
Depositary Services	Up to US\$0.02 per year per ADS held on the applicable record date(s) established by the Depositary

As an ADS holder you will also be responsible to pay certain fees and expenses incurred by the depositary and certain taxes and governmental charges such as:

Fees for the transfer and registration of common shares charged by the registrar and transfer agent for the common shares (*i.e.*, upon deposit and withdrawal of common shares).

Expenses incurred for converting foreign currency into U.S. dollars.

Expenses for cable, telex and fax transmissions and for delivery of securities.

Taxes and duties upon the transfer of securities (*i.e.*, when common shares are deposited or withdrawn from deposit).

Fees and expenses incurred in connection with the delivery or servicing of common shares on deposit.

Depositary fees payable upon the issuance and cancellation of ADSs are typically paid to the depositary by the brokers (on behalf of their clients) receiving the newly issued ADSs from the depositary and by the brokers (on behalf of their clients) delivering the ADSs to the depositary for cancellation. The brokers in turn charge these fees to their clients. Depositary fees payable in connection with distributions of cash or securities to ADS holders and the depositary services fee are charged by the depositary to the holders of record of ADSs as of the applicable ADS record date.

The depositary fees payable for cash distributions are generally deducted from the cash being distributed. In the case of distributions other than cash (i.e., stock dividend, rights), the depositary charges the

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applicable fee to the ADS record date holders concurrent with the distribution. In the case of ADSs registered in the name of the investor (whether certificated or uncertificated in direct registration), the depositary sends invoices to the applicable record date ADS holders. In the case of ADSs held in brokerage and custodian accounts (via DTC), the depositary generally collects its fees through the systems provided by DTC (whose nominee is the registered holder of the ADSs held in DTC) from the brokers and custodians holding ADSs in their DTC accounts. The brokers and custodians who hold their clients' ADSs in DTC accounts in turn charge their clients' accounts the amount of the fees paid to the depositary.

In the event of refusal to pay the depositary fees, the depositary may, under the terms of the deposit agreement, refuse the requested service until payment is received or may set off the amount of the depositary fees from any distribution to be made to the ADS holder.

Note that the fees and charges you may be required to pay may vary over time and may be changed by us and by the depositary. You will receive prior notice of such changes.

The Bank of New York Mellon, as depositary, has agreed to reimburse us for certain expenses we incur that are related to establishment and maintenance of the ADS program, including investor relations expenses and stock market application and listing fees. There are limits on the amount of expenses for which the depositary will reimburse us, but the amount of reimbursement available to us is not related to the amount of fees the depositary collects from investors.

Amendments and Termination

We may agree with the depositary to modify the deposit agreement at any time without your consent. The depositary will give holders 30 days prior notice of any modifications that would materially prejudice any of their substantial rights under the deposit agreement.

You will be bound by the modifications to the deposit agreement if you continue to hold your ADSs after the modifications to the deposit agreement become effective. The deposit agreement cannot be amended to prevent you from withdrawing the common shares represented by your ADSs (except to comply with laws).

We have the right to direct the depositary to terminate the deposit agreement. Similarly, the depositary may in certain circumstances on its own initiative terminate the deposit agreement. In either case, the depositary must give notice to the holders at least 30 days before termination. Until termination, your rights under the deposit agreement will be unaffected.

After termination, the depositary will continue to collect distributions received (but will not distribute any such property until you request the cancellation of your ADSs) and may sell the securities held on deposit. After the sale, the depositary will hold the proceeds from such sale and any other funds then held for the holders of ADSs in a non-interest bearing account. At that point, the depositary will have no further obligations to holders other than to account for the funds then held for the holders of ADSs still outstanding (after deduction of applicable fees, taxes and expenses).

Books of Depositary

The depositary will maintain ADS holder records at its depositary office. You may inspect such records at such office during regular business hours but solely for the purpose of communicating with other holders in the interest of business matters relating to the ADSs and the deposit agreement.

The depositary will maintain facilities in New York to record and process the issuance, cancellation, combination, split-up and transfer of ADSs. These facilities may be closed from time to time, to the extent not prohibited by law.

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Limitations on Obligations and Liabilities

The deposit agreement limits our obligations and the depositary's obligations to you. Please note the following:

We and the depositary are obligated only to take the actions specifically stated in the deposit agreement without negligence or bad faith.

The depositary disclaims any liability for any failure to carry out voting instructions, for any manner in which a vote is cast or for the effect of any vote, provided it acts in good faith.

The depositary disclaims any liability for the validity or worth of the common shares, or for allowing any rights to lapse under the terms of the deposit agreement.

We and the depositary disclaim any liability if we are prevented or forbidden from acting on account of any law or regulation, any provision of our memorandum and articles of association, as amended and restated from time to time, any provision of any securities on deposit or by reason of any act of God or war or other circumstances beyond our control.

We and the depositary disclaim any liability by reason of any exercise of, or failure to exercise, any discretion provided for the deposit agreement or in our memorandum and articles of association, as amended and restated from time to time, or in any provisions of securities on deposit.

We and the depositary further disclaim any liability for any action or inaction in reliance on the advice or information received from legal counsel, accountants, any person presenting common shares for deposit, any holder of ADSs or authorized representatives thereof, or any other person believed by either of us in good faith to be competent to give such advice or information.

We and the depositary also disclaim liability for the inability by a holder to benefit from any distribution, offering, right or other benefit which is made available to holders of common shares but is not, under the terms of the deposit agreement, made available to you.

We and the depositary may rely without any liability upon any written notice, request or other document believed to be genuine and to have been signed or presented by the proper parties.

We and the depositary also disclaim liability for any consequential or punitive damages for any breach of the terms of the deposit agreement.

Pre-Release of ADSs

The depositary may, in certain circumstances, deliver ADSs before receiving a deposit of common shares. These transactions are commonly referred to as pre-release transactions. The depositary may deliver common shares upon surrender of ADSs that have been pre-released. The deposit agreement limits the aggregate size of pre-release transactions and imposes a number of conditions on such transactions (*i.e.*, the need to receive collateral, the type of collateral required, the representations required from brokers, etc.). The depositary may retain the compensation received from the pre-release transactions.

Taxes

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You will be responsible for the taxes and other governmental charges payable on the ADSs and the securities represented by the ADSs. We, the depositary and the custodian may deduct from any distribution the taxes and governmental charges payable by holders and may sell any and all property on deposit to pay the taxes and governmental charges payable by holders. You will be liable for any deficiency if the sale proceeds do not cover the taxes that are due.

The depositary may refuse to issue ADSs, to deliver, transfer, split and combine ADRs or to release securities on deposit until all taxes and charges are paid by the applicable holder.

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Foreign Currency Conversion

The depository will arrange for the conversion of all foreign currency received into U.S. dollars if such conversion is practical and can be made on a reasonable basis, and it will distribute the U.S. dollars in accordance with the terms of the deposit agreement. You may have to pay fees and expenses incurred in converting foreign currency, such as fees and expenses incurred in complying with currency exchange controls and other governmental requirements.

If the conversion of foreign currency is not practical or lawful, or if any required approvals are denied or not obtainable at a reasonable cost or within a reasonable period, the depository may take the following actions in its discretion:

Convert the foreign currency to the extent practical and lawful and distribute the U.S. dollars to the holders for whom the conversion and distribution is lawful and practical.

Distribute the foreign currency to holders for whom the distribution is lawful and practical.

Hold the foreign currency (without liability for interest) for the applicable holders.

Table of Contents**SHARES ELIGIBLE FOR FUTURE SALE**

Upon completion of this offering, we will have _____ outstanding ADSs representing approximately _____ % of our common shares in issue. All of the ADSs sold in this offering will be freely transferable by persons other than our affiliates without restriction or further registration under the Securities Act. Sales of substantial amounts of our ADSs in the public market could adversely affect prevailing market prices of our ADSs.

Lock-Up

We have agreed that we will not, directly or indirectly, (i) offer, issue, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend or otherwise transfer or dispose of, directly or indirectly, any of our common shares or ADSs or securities convertible into or exchangeable or exercisable for any of our common shares or ADSs or any of our securities that are substantially similar to our common shares or ADSs, (ii) enter into a transaction that would have the same effect, or enter into any swap, hedge or other arrangement that transfers, in whole or in part, any of the economic consequences of ownership of our common shares or ADSs or any of our securities that are substantially similar to our common shares or ADSs, whether any of these transactions are to be settled by delivery of our common shares, ADSs or such other securities, in cash or otherwise, (iii) establish or increase a put equivalent position or liquidate or decrease a call equivalent position in our common shares or ADSs or any of our securities that are substantially similar to our common shares or ADSs, (iv) file with the SEC a registration statement under the Securities Act relating to any of our common shares or ADSs or securities convertible into or exchangeable or exercisable for any of our common shares or ADSs or any of our securities that are substantially similar to our common shares or ADSs, or (v) publicly disclose the intention to make any offer, sale, pledge or disposition, or to enter into any transaction, swap, hedge or other arrangement, without, in each case, the prior written consent of the representatives for a period of 90 days after the date of this prospectus.

The selling shareholders have agreed that they will not directly or indirectly, (i) offer, sell, contract to sell, pledge or otherwise transfer or dispose of, directly or indirectly, any of our common shares or ADSs or securities convertible into or exchangeable or exercisable for any of our common shares or ADSs, enter into a transaction that would have the same effect, (ii) enter into any swap, hedge or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of our common shares or ADSs, whether any of these transactions are to be settled by delivery of our common shares, ADSs or other securities, in cash or otherwise, (iii) demand the filing of a registration statement pursuant to a shareholder's agreement or otherwise, or (iv) publicly disclose the intention to make any offer, sale, pledge or disposition, or to enter into any transaction, swap, hedge or other arrangement, without, in each case, the prior written consent of the representatives for a period of 90 days after the date of this prospectus.

However, in the event that either (1) during the last 17 days of the 90-day restricted period, we release earnings results or material news or a material event relating to us occurs or (2) prior to the expiration of the 90-day restricted period, we announce that we will release earnings results during the 16-day period beginning on the last day of the lock-up period, then in either case the expiration of the 90-day restricted period will be extended until the expiration of the 18-day period beginning on the date of the release of the earnings results or the occurrence of the material news or event, as applicable, unless the representatives waive, in writing, such an extension.

Please see Underwriting for additional information.

Rule 144

In general, under Rule 144 as currently in effect, a person who has beneficially owned our restricted securities for at least six months is entitled to sell the restricted securities without registration under the Securities Act, subject to certain restrictions. Persons who are our affiliates (including persons beneficially owning 10% or

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more of our outstanding shares) may sell within any three-month period a number of restricted securities that does not exceed the greater of the following:

1% of the number of our common shares then outstanding, in the form of ADSs or otherwise, which will equal approximately _____ shares immediately after this offering, or _____ if the underwriters exercise their option to purchase additional ADSs in full; and

the average weekly trading volume of our ADSs on the Nasdaq Global Market during the four calendar weeks preceding the date on which notice of the sale is filed with the SEC.

Such sales are also subject to manner-of-sale provisions, notice requirements and the availability of current public information about us. Persons who are not our affiliates and have beneficially owned our restricted securities for more than six months but not more than one year may sell the restricted securities without registration under the Securities Act subject to the availability of current public information about us. Persons who are not our affiliates and have beneficially owned our restricted securities for more than one year may freely sell the restricted securities without registration under the Securities Act.

Rule 701

In general, under Rule 701 of the Securities Act as currently in effect, each of our employees, consultants or advisors who purchases our common shares from us in connection with a compensatory stock plan or other written agreement executed prior to the completion of this offering is eligible to resell such common shares in reliance on Rule 144, but without compliance with some of the restrictions, including the holding period, contained in Rule 144.

Registration Rights

Certain holders of our common shares or their transferees are entitled to request that we register their shares under the Securities Act, following the expiration of the lock-up agreements described above. See Description of Share Capital Registration Rights.

Table of Contents**TAXATION**

The following summary of the material Cayman Islands, PRC and United States federal income tax consequences of an investment in our ADSs or common shares is based upon laws and relevant interpretations thereof in effect as of the date of this registration statement, all of which are subject to change. This summary does not deal with all possible tax consequences relating to an investment in our ADSs or common shares, such as the tax consequences under state, local and other tax laws. To the extent that the discussion relates to matters of Cayman Islands tax law, it represents the opinion of Maples and Calder, our Cayman Islands counsel.

Cayman Islands Taxation

The Cayman Islands currently levies no taxes on individuals or corporations based upon profits, income, gains or appreciation and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to us levied by the Government of the Cayman Islands except for stamp duties which may be applicable on instruments executed in, or brought within the jurisdiction of the Cayman Islands. The Cayman Islands is not party to any double tax treaties. There are no exchange control regulations or currency restrictions in the Cayman Islands.

People's Republic of China Taxation

The EIT Law was enacted on March 16, 2007 and became effective on January 1, 2008. Under the EIT Law and the implementation regulations under the EIT Law issued by the PRC State Council, China has adopted a uniform tax rate of 25% for all enterprises (including foreign-invested enterprises) and revoked the previous tax exemption, reduction and preferential treatments applicable to foreign-invested enterprises. However, there is a transition period for enterprises, whether foreign-invested or domestic, that received preferential tax treatments granted by relevant tax authorities prior to January 1, 2008. Enterprises that were subject to an enterprise income tax rate lower than 25% prior to January 1, 2008 may continue to enjoy the lower rate and gradually transition to the new tax rate within five years. Enterprises that were entitled to exemptions or reductions from the standard income tax rate for a fixed term prior to January 1, 2008 may continue to enjoy such treatment until the fixed term expires. However, if a foreign-invested enterprise had not become profitable by end of December 2007, a two-year exemption from the enterprise income tax will be granted for the period between the time the enterprise becomes profitable and December 31, 2009. Preferential tax treatments may continue to be granted to industries and projects that are strongly supported and encouraged by the State, and enterprises classified as new and high technology enterprises strongly supported by the State are entitled to a 15% enterprise income tax rate.

The EIT Law also provides that enterprises established outside of China whose de facto management bodies are located in China are considered resident enterprises, and are generally subject to the uniform 25% enterprise income tax rate as to their global income, including income received from subsidiaries and consolidated affiliates. Under the implementation regulations to the EIT Law issued by the PRC State Council, de facto management body is defined as a body that has material and overall management and control over the manufacturing and business operations, personnel and human resources, finances and treasury, and acquisition and disposition of properties and other assets of an enterprise. If we are treated as a resident enterprise for PRC tax purposes, we will be subject to PRC tax on our worldwide income at a rate of 25%.

Furthermore, unlike the PRC Income Tax Law for Enterprises with Foreign Investment and Foreign Enterprises, which specifically exempts withholding tax on any dividends payable to non-PRC investors of foreign-invested enterprises, the EIT Law and implementation regulations issued by the State Council provide that an income tax rate of 10% is normally applicable to dividends payable to non-PRC investors which are derived from sources within China, although such income tax may be exempted or reduced by the State Council of the PRC or a tax treaty between China and the jurisdiction where the non-PRC investors reside. We are a Cayman Islands holding company and substantially all of our income may be derived from dividends we receive from our operating subsidiary and consolidated affiliates located in China. If we declare dividends from such income, it may be deemed to be derived from sources within China under the EIT Law and be subject to income

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tax under the EIT Law. If we are required under the EIT Law to pay income tax for any dividends we received from our subsidiary in China, your investment in us may be materially and adversely affected. In addition, it is unclear whether dividends paid to our non-PRC shareholders and ADS holders or any capital gains from the transfer of our common shares or ADSs, would be treated as income derived from sources within the PRC and be subject to PRC tax. If we are required under the EIT Law to withhold PRC income tax on dividends payable to our non-PRC investors that are non-resident enterprises or if you are required to pay PRC income tax on the transfer of our common shares or ADSs, the value of your investment in common shares or ADSs may be materially and adversely affected.

Material United States Federal Income Tax Consequences

The following summary describes the material United States federal income tax consequences of the ownership of our common shares and ADSs as of the date hereof. The discussion is applicable to United States Holders (as defined below) who hold our common shares or ADSs as capital assets. As used herein, the term United States Holder means a beneficial owner of a common share or ADS that is for United States federal income tax purposes:

an individual citizen or resident of the United States;

a corporation (or other entity treated as a corporation for United States federal income tax purposes) created or organized in or under the laws of the United States, any state thereof or the District of Columbia;

an estate the income of which is subject to United States federal income taxation regardless of its source; or

a trust if it (1) is subject to the primary supervision of a court within the United States and one or more United States persons have the authority to control all substantial decisions of the trust or (2) has a valid election in effect under applicable United States Treasury regulations to be treated as a United States person.

This summary does not represent a detailed description of the United States federal income tax consequences applicable to you if you are subject to special treatment under the United States federal income tax laws, including if you are:

a dealer in securities or currencies;

a financial institution;

a regulated investment company;

a real estate investment trust;

an insurance company;

a tax-exempt organization;

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a person holding our common shares or ADSs as part of a hedging, integrated or conversion transaction, a constructive sale or a straddle;

a trader in securities that has elected the mark-to-market method of accounting for your securities;

a person liable for alternative minimum tax;

a person who owns or is deemed to own 10% or more of our voting stock;

a partnership or other pass-through entity for United States federal income tax purposes; or

a person whose functional currency is not the United States dollar.

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The discussion below is based upon the provisions of the Internal Revenue Code of 1986, as amended (the Code), and regulations, rulings and judicial decisions thereunder as of the date hereof, and such authorities may be replaced, revoked or modified so as to result in United States federal income tax consequences different from those discussed below. In addition, this summary is based, in part, upon representations made by the depositary to us and assumes that the deposit agreement, and all other related agreements, will be performed in accordance with their terms.

If a partnership holds common shares or ADSs, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. If you are a partner of a partnership holding our common shares or ADSs, you should consult your tax advisors.

This summary does not contain a detailed description of all the United States federal income tax consequences to you in light of your particular circumstances and does not address the effects of any state, local or non-United States tax laws. **If you are considering the purchase, ownership or disposition of our common shares or ADSs, you should consult your own tax advisors concerning the United States federal income tax consequences to you in light of your particular situation as well as any consequences arising under the laws of any other taxing jurisdiction.**

The U.S. Treasury has expressed concerns that intermediaries in the chain of ownership between the holder of an ADS and the issuer of the security underlying the ADS may be taking actions that are inconsistent with the claiming of foreign tax credits for United States holders of ADSs. Such actions would also be inconsistent with the claiming of the reduced rate of tax, described below, applicable to dividends received by certain non-corporate holders. Accordingly, the analysis of the creditability of PRC taxes and the availability of the reduced tax rate for dividends received by certain non-corporate holders, each described below, could be affected by actions taken by intermediaries in the chain of ownership between the holder of an ADS and our company.

ADSs

If you hold ADSs, for United States federal income tax purposes, you generally will be treated as the owner of the underlying common shares that are represented by such ADSs. Accordingly, deposits or withdrawals of common shares for ADSs will not be subject to United States federal income tax.

Taxation of Dividends

Subject to the discussion under *Passive Foreign Investment Company* below, the gross amount of distributions on the ADSs or common shares (including amounts withheld to reflect PRC withholding taxes) will be taxable as dividends, to the extent paid out of our current or accumulated earnings and profits, as determined under United States federal income tax principles. Such income will be includable in your gross income as ordinary income on the day actually or constructively received by you, in the case of the common shares, or by the depositary, in the case of ADSs. Such dividends will not be eligible for the dividends received deduction allowed to corporations under the Code.

With respect to non-corporate United States Holders, certain dividends received in taxable years beginning before January 1, 2011 from a qualified foreign corporation may be subject to reduced rates of taxation. A foreign corporation is treated as a qualified foreign corporation with respect to dividends paid by that corporation on shares (or ADSs backed by such shares) that are readily tradable on an established securities market in the United States. U.S. Treasury Department guidance indicates that our ADSs (which are listed on the Nasdaq Global Market), but not our common shares, are readily tradable on an established securities market in the United States. Thus, we believe that dividends we pay on our common shares that are represented by ADSs, but not on our common shares that are not so represented, currently meet the conditions required for the reduced tax rates. There can be no assurance that our ADSs will be considered readily tradable on an established securities market in later years. A qualified foreign corporation also includes a foreign corporation that is eligible

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for the benefits of certain income tax treaties with the United States. In the event that we are deemed to be a Chinese resident enterprise under the PRC tax law, we may be eligible for the benefits of the income tax treaty between the United States and the PRC, and if we are eligible for such benefits, dividends we pay on our common shares, regardless of whether such shares are represented by ADSs, would be subject to the reduced rates of taxation. Non-corporate United States Holders that do not meet a minimum holding period requirement during which they are not protected from the risk of loss or that elect to treat the dividend income as investment income pursuant to Section 163(d)(4) of the Code will not be eligible for the reduced rates of taxation regardless of our status as a qualified foreign corporation. In addition, the rate reduction will not apply to dividends if the recipient of a dividend is obligated to make related payments with respect to positions in substantially similar or related property. This disallowance applies even if the minimum holding period has been met. You should consult your own tax advisors regarding the application of these rules to your particular circumstances.

In the event that we are deemed to be a Chinese resident enterprise under the PRC tax law, you may be subject to PRC withholding taxes on dividends paid to you with respect to the ADSs or common shares. In that case, however, you may be able to obtain a reduced rate of PRC withholding taxes under the treaty between the United States and the PRC if certain requirements are met. In addition, subject to certain conditions and limitations, PRC withholding taxes on dividends, if any, may be treated as foreign taxes eligible for credit against your United States federal income tax liability. For purposes of calculating the foreign tax credit, dividends paid on the ADSs or common shares will be treated as foreign-source income and will generally constitute passive category income. Furthermore, in certain circumstances, if you have held the ADSs or common shares for less than a specified minimum period during which you are not protected from risk of loss, or are obligated to make payments related to the dividends, you will not be allowed a foreign tax credit for any PRC withholding taxes imposed on dividends paid on the ADSs or common shares. The rules governing the foreign tax credit are complex. You are urged to consult your tax advisors regarding the availability of the foreign tax credit under your particular circumstances.

To the extent that the amount of any distribution exceeds our current and accumulated earnings and profits for a taxable year, as determined under United States federal income tax principles, it will be treated first as a tax-free return of your tax basis in your ADSs or common shares, and to the extent the amount of the distribution exceeds your tax basis, the excess will be taxed as capital gain. We do not expect to keep earnings and profits in accordance with United States federal income tax principles. Therefore, you should expect that a distribution will generally be reported as a dividend (as discussed above).

Passive Foreign Investment Company

Although our status as a passive foreign investment company, or PFIC, is a legal determination, based upon the past and projected composition of our income and valuation of our assets, including goodwill, we do not believe that we were a PFIC for 2007, and we do not expect to become one in the future, although there can be no assurance in this regard. Because the determination of PFIC status requires extensive factual investigation, including ascertaining the fair market value of our assets on a quarterly basis and the character of each item of income we earn, this determination, although ultimately legal in nature, is beyond the scope of legal counsel's role and, accordingly, our U.S. counsel expresses no opinion with respect to our PFIC status and also expresses no opinion with respect to our expectations contained in this paragraph. In general, we will be a PFIC for any taxable year in which:

at least 75% of our gross income is passive income, or

at least 50% of the value (determined based on a quarterly average) of our assets is attributable to assets that produce or are held for the production of passive income.

For this purpose, passive income generally includes dividends, interest, royalties and rents (other than royalties and rents derived in the active conduct of a trade or business and not derived from a related person). If we own at least 25% (by value) of the stock of another corporation, we will be treated, for purposes of the PFIC

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tests, as owning our proportionate share of the other corporation's assets and receiving our proportionate share of the other corporation's income.

The determination of whether we are a PFIC is made annually. Accordingly, it is possible that we may become a PFIC in the current or any future taxable year due to changes in our asset or income composition. Because we have valued our goodwill based on the market value of our equity, a decrease in the price of our ADSs may also result in our becoming a PFIC. If we are a PFIC for any taxable year during which you hold our ADSs or common shares, you will be subject to special tax rules discussed below.

If we are a PFIC for any taxable year during which you hold our ADSs or common shares, you will be subject to special tax rules with respect to any excess distribution received and any gain realized from a sale or other disposition, including a pledge, of ADSs or common shares. Distributions received in a taxable year that are greater than 125% of the average annual distributions received during the shorter of the three preceding taxable years or your holding period for the ADSs or common shares will be treated as excess distributions. Under these special tax rules:

the excess distribution or gain will be allocated ratably over your holding period for the ADSs or common shares,

the amount allocated to the current taxable year, and any taxable year prior to the first taxable year in which we were a PFIC, will be treated as ordinary income, and

the amount allocated to each other year will be subject to tax at the highest tax rate in effect for that year and the interest charge generally applicable to underpayments of tax will be imposed on the resulting tax attributable to each such year.

In addition, non-corporate United States Holders will not be eligible for reduced rates of taxation on any dividends received from us in taxable years beginning prior to January 1, 2011, if we are a PFIC in the taxable year in which such dividends are paid or in the preceding taxable year. You will be required to file Internal Revenue Service Form 8621 if you hold our ADSs or common shares in any year in which we are classified as a PFIC.

If we are a PFIC for any taxable year and any of our non-United States subsidiaries is also a PFIC, a United States Holder would be treated as owning a proportionate amount (by value) of the shares of the lower-tier PFIC for purposes of the application of these rules. You are urged to consult your tax advisors about the application of the PFIC rules to any of our subsidiaries.

In certain circumstances, in lieu of being subject to the excess distribution rules discussed above, you may make an election to include gain on the stock of a PFIC as ordinary income under a mark-to-market method, provided that such stock is regularly traded on a qualified exchange. Under current law, the mark-to-market election may be available to holders of ADSs because the ADSs are listed on the Nasdaq Global Market, which constitutes a qualified exchange, although there can be no assurance that the ADSs will be regularly traded for purposes of the mark-to-market election. It should be noted that only the ADSs, and not the common shares, are listed on the Nasdaq Global Market. Consequently, if you are a holder of common shares that are not represented by ADSs, you generally will not be eligible to make a mark-to-market election. If you make an effective mark-to-market election, you will include in each year as ordinary income the excess of the fair market value of your ADSs at the end of the year over your adjusted tax basis in the ADSs. You will be entitled to deduct as an ordinary loss each year the excess of your adjusted tax basis in the ADSs over their fair market value at the end of the year, but only to the extent of the net amount previously included in income as a result of the mark-to-market election. If you make an effective market-to-market election, any gain you recognize upon the sale or other disposition of your ADSs will be treated as ordinary income and any loss will be treated as ordinary loss, but only to the extent of the net amount previously included in income as a result of the mark-to-market election.

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Your adjusted tax basis in the ADSs will be increased by the amount of any income inclusion and decreased by the amount of any deductions under the mark-to-market rules. If you make a mark-to-market election it will be effective for the taxable year for which the election is made and all subsequent taxable years unless the ADSs are no longer regularly traded on a qualified exchange or the Internal Revenue Service consents to the revocation of the election. You are urged to consult your tax advisor about the availability of the mark-to-market election, and whether making the election would be advisable in your particular circumstances.

Alternatively, you can sometimes avoid the rules described above with respect to the stock you own in a PFIC by electing to treat such PFIC as a qualified electing fund under Section 1295 of the Code. However, this option is not available to you because we do not intend to comply with the requirements necessary to permit you to make this election. You are urged to consult your tax advisors concerning the United States federal income tax consequences of holding ADSs or common shares if we are considered a PFIC in any taxable year.

Taxation of Capital Gains

For United States federal income tax purposes and subject to the discussion under *Passive Foreign Investment Company* above, you will recognize taxable gain or loss on any sale or exchange of ADSs or common shares in an amount equal to the difference between the amount realized for the ADSs or common shares and your tax basis in the ADSs or common shares. Such gain or loss will generally be capital gain or loss. Capital gains of individuals derived with respect to capital assets held for more than one year are eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations. Any gain or loss recognized by you will generally be treated as United States source gain or loss. However, in the event that we are deemed to be a PRC resident enterprise under the PRC tax law, we may be eligible for the benefits of the income tax treaty between the United States and the PRC. Under that treaty, if any PRC tax was to be imposed on any gain from the disposition of the ADSs or common shares, the gain may be treated as PRC-source income. You are urged to consult your tax advisors regarding the tax consequences if a foreign withholding tax is imposed on a disposition of ADSs or common shares, including the availability of the foreign tax credit under your particular circumstances.

Information Reporting and Backup Withholding

In general, information reporting will apply to dividends in respect of our ADSs or common shares and the proceeds from the sale, exchange or redemption of our ADSs or common shares that are paid to you within the United States (and in certain cases, outside the United States), unless you are an exempt recipient such as a corporation. A backup withholding tax may apply to such payments if you fail to provide a taxpayer identification number or certification of other exempt status or fail to report in full dividend and interest income.

Any amounts withheld under the backup withholding rules will be allowed as a refund or a credit against your United States federal income tax liability provided the required information is furnished to the Internal Revenue Service.

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Under the terms and subject to the conditions contained in an underwriting agreement dated the date of this prospectus, the underwriters named below, for whom Credit Suisse Securities (USA) LLC, Morgan Stanley & Co. International plc and Merrill Lynch, Pierce, Fenner & Smith Incorporated are acting as representatives, have severally agreed to purchase, and we and the selling shareholders have agreed to sell to them, the number of ADSs indicated in the table below. Credit Suisse Securities (USA) LLC's address is Eleven Madison Avenue, New York, New York 10010-3629, U.S.A.; Morgan Stanley & Co. International plc's address is 25 Cabot Square, Canary Wharf, London E14 4QA, United Kingdom; and Merrill Lynch, Pierce, Fenner & Smith Incorporated's address is 4 World Financial Center, 250 Vesey Street, New York, New York 10080, U.S.A.

Underwriters	Number of ADSs
Credit Suisse Securities (USA) LLC	
Morgan Stanley & Co. International plc	
Merrill Lynch, Pierce, Fenner & Smith Incorporated	
Oppenheimer & Co., Inc.	
Susquehanna Financial Group, LLLP	
Total	

The underwriters are offering the ADSs subject to their acceptance of the ADSs from us and the selling shareholders. The underwriting agreement provides that the obligations of the several underwriters to pay for and accept delivery of the ADSs offered by this prospectus are subject to the approval of certain legal matters by their counsel and to certain other conditions. The underwriting agreement also provides that if an underwriter defaults, the purchase commitments of non-defaulting underwriters may be increased or the offering may be terminated. The underwriters are obligated to take and pay for all of the ADSs offered by this prospectus if any such ADSs are taken. However, the underwriters are not required to take or pay for the ADSs covered by the underwriters' over-allotment option described below.

We and the selling shareholders have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act, or to contribute to payments the underwriters may be required to make in respect of those liabilities.

The representatives have advised us that the underwriters propose to initially offer the ADSs to the public at the public offering price set forth on the cover page of this prospectus and to dealers at that price less a concession not in excess of US\$ per ADS. The underwriters may allow, and the dealers may re-allow, a discount not in excess of US\$ per ADS to other dealers. If all of the ADSs are not sold at the public offering price, the representatives may change the concession and discount and the other selling terms.

The following table shows the per ADS and total underwriting discounts and commissions to be paid to the underwriters by us and the selling shareholders in connection with this offering. The amounts in the following table are shown assuming both no exercise and full exercise of the underwriters' over-allotment option.

	Per ADS		Total	
	Without Over-Allotment	With Over-Allotment	Without Over-Allotment	With Over-Allotment
Underwriting discounts and commissions paid by us	US\$	US\$	US\$	US\$
Expenses payable by us	US\$	US\$	US\$	US\$
Underwriting discounts and commissions paid by selling shareholders	US\$	US\$	US\$	US\$
Expenses payable by selling shareholders	US\$	US\$	US\$	US\$

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We and the selling shareholders have granted to the underwriters options, exercisable for 30 days from the date of this prospectus, to purchase up to an aggregate of 1,200,000 additional ADSs at the public offering price set forth on the cover page of this prospectus, less underwriting discounts and commissions. The underwriters may exercise these options solely for the purpose of covering over-allotments, if any, made in connection with the offering of the ADSs offered by this prospectus. To the extent the options are exercised, each underwriter will become obligated, subject to certain conditions, to purchase a number of additional ADSs approximately proportionate to each underwriter's initial amount reflected in the table above.

We have agreed that we will not, directly or indirectly, (i) offer, issue, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend or otherwise transfer or dispose of, directly or indirectly, any of our common shares or ADSs or securities convertible into or exchangeable or exercisable for any of our common shares or ADSs or any of our securities that are substantially similar to our common shares or ADSs, (ii) enter into a transaction that would have the same effect, or enter into any swap, hedge or other arrangement that transfers, in whole or in part, any of the economic consequences of ownership of our common shares or ADSs or any of our securities that are substantially similar to our common shares or ADSs, whether any of these transactions are to be settled by delivery of our common shares, ADSs or such other securities, in cash or otherwise, (iii) establish or increase a put equivalent position or liquidate or decrease a call equivalent position in our common shares or ADSs or any of our securities that are substantially similar to our common shares or ADSs, (iv) file with the SEC a registration statement under the Securities Act relating to any of our common shares or ADSs or securities convertible into or exchangeable or exercisable for any of our common shares or ADSs or any of our securities that are substantially similar to our common shares or ADSs, or (v) publicly disclose the intention to make any offer, sale, pledge or disposition, or to enter into any transaction, swap, hedge or other arrangement, without, in each case, the prior written consent of the representatives for a period of 90 days after the date of this prospectus. However, in the event that either (1) during the last 17 days of the 90-day restricted period, we release earnings results or material news or a material event relating to us occurs or (2) prior to the expiration of the 90-day restricted period, we announce that we will release earnings results during the 16-day period beginning on the last day of the 90-day restricted period, then in either case the expiration of the 90-day restricted period will be extended until the expiration of the 18-day period beginning on the date of the release of the earnings results or the occurrence of the material news or event, as applicable, unless the representatives waive, in writing, such an extension.

The selling shareholders have agreed that they will not directly or indirectly, (i) offer, sell, contract to sell, pledge or otherwise transfer or dispose of, directly or indirectly, any of our common shares or ADSs or securities convertible into or exchangeable or exercisable for any of our common shares or ADSs, enter into a transaction that would have the same effect, (ii) enter into any swap, hedge or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of our common shares or ADSs, whether any of these transactions are to be settled by delivery of our common shares, ADSs or other securities, in cash or otherwise, (iii) demand the filing of a registration statement pursuant to a shareholder's agreement or otherwise, or (iv) publicly disclose the intention to make any offer, sale, pledge or disposition, or to enter into any transaction, swap, hedge or other arrangement, without, in each case, the prior written consent of the representatives for a period of 90 days after the date of this prospectus. However, in the event that either (1) during the last 17 days of the 90-day restricted period, we release earnings results or material news or a material event relating to us occurs or (2) prior to the expiration of the 90-day restricted period, we announce that we will release earnings results during the 16-day period beginning on the last day of the lock-up period, then in either case the expiration of the 90-day restricted period will be extended until the expiration of the 18-day period beginning on the date of the release of the earnings results or the occurrence of the material news or event, as applicable, unless the representatives waive, in writing, such an extension.

The representatives have no present intent or understandings, tacit or explicit, to release the securities subject to the above restriction before the expiration of the 90-day restricted period described above.

Our ADSs are listed on the Nasdaq Global Market under the symbol VISN.

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The underwriters do not expect to sell more than 5% of the ADSs in the aggregate to accounts over which they exercise discretionary authority.

Until the distribution of the ADSs is completed, SEC rules may limit underwriters and selling group members from bidding for and purchasing our ADSs. However, the representatives, or any person acting for them, on behalf of the underwriters, may engage in transactions that stabilize the price of the ADSs, such as bids or purchases to peg, fix or maintain that price.

In connection with the offering, the underwriters may purchase and sell our ADSs in the open market. These transactions may include short sales, purchases on the open market to cover positions created by short sales and stabilizing transactions. Short sales involve the sale by the underwriters of a greater number of ADSs than they are required to purchase in the offering. Covered short sales are sales made in an amount not greater than the underwriters' option to purchase additional ADSs in the offering. The underwriters may close out any covered short position by either exercising their over-allotment option or purchasing ADSs in the open market. In determining the source of ADSs to close out the covered short position, the underwriters will consider, among other things, the price of ADSs available for purchase in the open market as compared to the price at which they may purchase additional ADSs pursuant to the over-allotment option. Naked short sales are sales in excess of the over-allotment option. The underwriters must close out any naked short position by purchasing ADSs in the open market. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of our ADSs in the open market after pricing that could adversely affect investors who purchase in the offering. Stabilizing transactions consist of various bids for, or purchases of, ADSs made by the underwriters in the open market prior to the completion of the offering.

The underwriters may also impose a penalty bid. This occurs when a particular underwriter repays to the underwriters a portion of the underwriting discount received by it because the representatives have repurchased ADSs sold by or for the account of such underwriter in stabilizing or short covering transactions.

Purchases to cover a short position and stabilizing transactions may have the effect of preventing or retarding a decline in the market price of the ADSs, and together with the imposition of the penalty bid, may stabilize, maintain or otherwise affect the market price of the ADSs. As a result, the price of the ADSs may be higher than the price that otherwise might exist in the open market. If these activities are commenced, they are required to be conducted in accordance with applicable laws and regulations, and may be discontinued at any time. These transactions may be effected on the Nasdaq Global Market, in the over-the-counter market or otherwise.

Neither we nor any of the underwriters makes any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the ADSs. In addition, neither we nor any of the underwriters makes any representation that the representatives will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

In connection with the offering, certain of the underwriters or securities dealers may distribute prospectuses by electronic means, such as e-mail. In addition, the representatives will be facilitating Internet distribution for this offering to certain of their respective Internet subscription customers. An electronic prospectus may be made available on the Internet web site maintained by one or more of the representatives. Other than the prospectus in electronic format, the information contained on, or that may be accessed through, the web site of any of the representatives is not part of this prospectus.

Selling Restrictions

European Economic Area

In relation to each member state of the European Economic Area which has implemented the Prospectus Directive (each, a relevant member state), with effect from and including the date on which the Prospectus

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Directive is implemented in that relevant member state (the relevant implementation date), no offer of the ADSs has been made or will be made to the public in that relevant member state prior to the publication of a prospectus in relation to the ADSs which has been approved by the competent authority in that relevant member state or, where appropriate, approved in another relevant member state and notified to the competent authority in that relevant member state, all in accordance with the Prospectus Directive, except that, with effect from and including the relevant implementation date, an offer of the ADSs to the public may be made in that relevant member state at any time:

(a) to legal entities which are authorized or regulated to operate in the financial markets or, if not authorized or regulated, whose corporate purpose is solely to invest in securities;

(b) to any legal entity which has two or more of (i) an average of at least 250 employees during the last financial year; (ii) a total balance sheet of more than 43,000,000; and (iii) an annual net turnover of more than 50,000,000, as shown in its last annual or consolidated accounts; or

(c) in any other circumstances which do not require the publication by us of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of the above, the expression an offer of any ADSs to the public in relation to any ADSs in any relevant member state means the communication in any form and by any means of sufficient information on the terms of the offer and the ADSs to be offered so as to enable an investor to decide to purchase or subscribe for the ADSs, as the same may be varied in that relevant member state by any measure implementing the Prospectus Directive in that relevant member state and the expression Prospective Directive means Directive 2003/71/EC and includes any relevant implementing measure in each relevant member state.

United Kingdom

No offer of ADSs has been made or will be made to the public in the United Kingdom within the meaning of Section 102B of the Financial Services and Markets Act 2000, as amended (the FSMA), except to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities or otherwise in circumstances which do not require the publication by us of a prospectus pursuant to the Prospectus Rules of the Financial Services Authority. Each underwriter (i) has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any ADSs to persons who have professional experience in matters relating to investing falling within Article 19(5) of the Financial Services and Market Act 2000 (Financial Promotion) Order 2005 or in circumstances in which Section 21 of the FSMA does not apply to us; and (ii) has complied with and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the ADSs in, from or otherwise involving the United Kingdom.

Japan

The ADSs have not been and will not be registered under the Securities and Exchange Law of Japan, or the Securities and Exchange Law, and ADSs will not be offered or sold, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to a resident of Japan, except pursuant to any exemption from the registration requirements of, and otherwise in compliance with, the Securities and Exchange Law and any other applicable laws, regulations and ministerial guidelines of Japan.

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Hong Kong

The ADSs may not be offered or sold by means of any document other than (i) in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap.32, Laws of Hong Kong), or (ii) to professional investors within the meaning of the Securities and Futures Ordinance (Cap.571, Laws of Hong Kong) and any rules made thereunder, or (iii) in other circumstances which do not result in the document being a prospectus within the meaning of the Companies Ordinance (Cap.32, Laws of Hong Kong), and no advertisement, invitation or document relating to the ADSs may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to ADSs which are or are intended to be disposed of only to persons outside Hong Kong or only to professional investors within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder.

Singapore

This prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this prospectus and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the ADSs may not be circulated or distributed, nor may the ADSs be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the SFA), (ii) to a relevant person pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Cayman Islands

This prospectus does not constitute an invitation or offer to the public in the Cayman Islands of the ADSs or common shares, whether by way of sale or subscription. The underwriters have not offered or sold, and will not offer or sell, directly or indirectly, any ADSs or common shares in the Cayman Islands.

People's Republic of China

This prospectus has not been and will not be circulated or distributed in the PRC, and ADSs may not be offered or sold, and will not be offered or sold to any person for re-offering or resale, directly or indirectly, to any resident of the PRC except pursuant to applicable laws and regulations of the PRC.

United Arab Emirates

This prospectus is not intended to constitute an offer, sale or delivery of shares or other securities under the laws of the United Arab Emirates, or the UAE. The ADSs have not been and will not be registered under Federal Law No. 4 of 2000 Concerning the Emirates Securities and Commodities Authority and the Emirates Security and Commodity Exchange, or with the UAE Central Bank, the Dubai Financial Market, the Abu Dhabi Securities Market or with any other UAE exchange.

The offering, the ADSs and interests therein have not been approved or licensed by the UAE Central Bank or any other relevant licensing authorities in the UAE, and do not constitute a public offer of securities in the UAE in accordance with the Commercial Companies Law, Federal Law No. 8 of 1984 (as amended) or otherwise.

In relation to its use in the UAE, this prospectus is strictly private and confidential and is being distributed to a limited number of investors and must not be provided to any person other than the original recipient, and may not be reproduced or used for any other purpose. The interests in the ADSs may not be offered or sold directly or indirectly to the public in the UAE.

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Kingdom of Bahrain

The offering is restricted in the Kingdom of Bahrain to banks, financial institutions and professional investors and any person receiving this prospectus in the Kingdom of Bahrain and not falling within those categories is ineligible to purchase the ADSs.

State of Kuwait

The ADSs have not been authorized or licensed for offering, marketing or sale in the State of Kuwait. The distribution of this prospectus and the offering and sale of the ADSs in the State of Kuwait is restricted by law unless a license is obtained from the Kuwait Ministry of Commerce and Industry in accordance with Law 31 of 1990. Persons into whose possession this prospectus comes are required by us and the underwriters to inform themselves about and to observe such restrictions. Investors in the State of Kuwait who approach us or any of the underwriters to obtain copies of this prospectus are required by us and the underwriters to keep such prospectus confidential and not to make copies thereof or distribute the same to any other person and are also required to observe the restrictions provided for in all jurisdictions with respect to offering, marketing and the sale of the ADSs.

Kingdom of Saudi Arabia

No action has been or will be taken in the Kingdom of Saudi Arabia that would permit a public offering or private placement of the ADSs in the Kingdom of Saudi Arabia, or possession or distribution of any offering materials in relation thereto. The ADSs may only be offered and sold in the Kingdom of Saudi Arabia in accordance with Part 5 (Exempt Offers) of the Offers of Securities Regulations dated 20/8/1425 AH corresponding to 4/10/2004 (the Regulations) and, in accordance with Part 5 (Exempt Offers) Article 17(a)(3) of the Regulations, the ADSs will be offered to no more than 60 offerees in the Kingdom of Saudi Arabia with each such offeree paying an amount not less than Saudi Riyals one million or its equivalent. Investors are informed that Article 20 of the Regulations places restrictions on secondary market activity with respect to the ADSs. Any resale or other transfer, or attempted resale or other transfer, made other than in compliance with the above-stated restrictions shall not be recognized by us.

General

No action may be taken in any jurisdiction other than the United States that would permit a public offering of the ADSs or the possession, circulation or distribution of this prospectus in any jurisdiction where action for that purpose is required. Accordingly, the ADSs may not be offered or sold, directly or indirectly, and neither this prospectus nor any other offering material or advertisements in connection with the ADSs may be distributed or published in or from any country or jurisdiction except under circumstances that will result in compliance with any applicable rules and regulations of any such country or jurisdiction.

Certain underwriters and their affiliates have, from time to time, provided, and may in the future provide, investment banking and other services to us or our officers and directors for which they have received or will receive customary fees and commissions.

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EXPENSES RELATING TO THIS OFFERING

Set forth below is an itemization of the total expenses, excluding underwriting discounts and commissions, that we expect to incur in connection with this offering. With the exception of the SEC registration fee and the Financial Industry Regulatory Authority, Inc., or FINRA, filing fee, all amounts are estimates.

SEC Registration Fee	US\$ 6,929
FINRA Filing Fee	US\$ 18,132
Printing Expenses	US\$
Legal Fees and Expenses	US\$
Accounting Fees and Expenses	US\$
Miscellaneous	US\$
Total	US\$

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LEGAL MATTERS

The validity of the ADSs and certain other legal matters as to U.S. federal and New York law in connection with this offering will be passed upon for us by Simpson Thacher & Bartlett LLP. Certain legal matters as to U.S. federal securities and New York state law in connection with this offering will be passed upon for the underwriters by Sullivan & Cromwell LLP. The validity of the common shares represented by the ADSs offered in this offering will be passed upon for us by Maples and Calder. Legal matters as to PRC law will be passed upon for us by Grandall Legal Group and for the underwriters by Global Law Office. Simpson Thacher & Bartlett LLP may rely upon Maples and Calder with respect to matters governed by Cayman Islands law and Grandall Legal Group with respect to matters governed by PRC law. Sullivan & Cromwell LLP may rely upon Global Law Office with respect to matters governed by PRC law.

EXPERTS

The consolidated financial statements as of December 31, 2006 and 2007, and for the period from April 8, 2005 (date of inception) to December 31, 2005 and for the years ended December 31, 2006 and 2007, and related financial statement schedule included in this prospectus have been audited by Deloitte Touche Tohmatsu CPA Ltd., an independent registered public accounting firm, as stated in their report appearing herein, and are included in reliance upon report of such firm given upon their authority as experts in accounting and auditing.

The office of Deloitte Touche Tohmatsu CPA Ltd. is located at 13/F, China Resources Building, 5001 Shennan Road East, Shenzhen 518010, China.

The statements included in this prospectus under the captions Prospectus Summary, Risk Factors Risks Related to Our Company and Our Industry, Risk Factors Risks Related to Our Corporate Structure, Risk Factors Risks Related to Doing Business in China, Enforceability of Civil Liabilities, Our Corporate Structure, Management's Discussion and Analysis of Financial Condition and Results of Operations, Business and Regulation, to the extent they constitute matters of PRC law, have been reviewed and confirmed by Grandall Legal Group, our PRC counsel, as experts in such matters, and are included in this prospectus in reliance upon such review and confirmation. The offices of Grandall Legal Group are located at 31st Floor, Nanzheng Building, No. 580, Nanjing W. Road, Shanghai 200041, People's Republic of China.

WHERE YOU CAN FIND ADDITIONAL INFORMATION

We have filed with the SEC a registration statement on Form F-1, including relevant exhibits and schedules under the Securities Act with respect to underlying common shares represented by the ADSs, to be sold in this offering. This prospectus, which constitutes a part of the registration statement, does not contain all of the information contained in the registration statement. You should read the registration statement on Form F-1 and its exhibits and schedules for further information with respect to us and our ADSs.

We are subject to periodic reporting and other informational requirements of the Securities Exchange Act of 1934, as amended, as applicable to foreign private issuers. Accordingly, we are required to file reports, including annual reports on Form 20-F, and other information with the SEC. As a foreign private issuer, we are exempt from the rules of the Exchange Act prescribing the furnishing and content of proxy statements to shareholders. All information filed with the SEC can be inspected and copied at the public reference facilities maintained by the SEC at 100 F. Street, N.E., Washington, D.C. 20549. You can request copies of these documents, upon payment of a duplicating fee, by writing to the SEC. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference rooms. You may also obtain additional information over the Internet at the SEC's website at www.sec.gov.

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VISIONCHINA MEDIA INC.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of VisionChina Media Inc.:

We have audited the accompanying consolidated balance sheets of VisionChina Media Inc. and its subsidiary and variable interest entity (the Company) as of December 31, 2006 and 2007, the related consolidated statements of operations, shareholders' equity and comprehensive income, and cash flows for the period from April 8, 2005 (date of inception) to December 31, 2005 and for the years ended December 31, 2006 and 2007, and related financial statement schedule included in Schedule I. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing the audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2006 and 2007, and the results of their operations and their cash flows for the period from April 8, 2005 (date of inception) to December 31, 2005 and for the years ended December 31, 2006 and 2007 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects, the information set forth therein.

/s/ Deloitte Touche Tohmatsu CPA Ltd.

Shenzhen, China

March 31, 2008

Table of Contents**VISIONCHINA MEDIA INC.****CONSOLIDATED BALANCE SHEETS**

(Amounts in U.S. dollars (\$), except number of shares)

	Notes	December 31, 2006	December 31, 2007
ASSETS			
Current Assets:			
Cash and cash equivalents		5,215,693	131,139,659
Accounts receivable, net of allowance for doubtful accounts of \$73,354 and nil as of December 31, 2006 and 2007, respectively		832,345	13,256,450
Amounts due from related parties	15	1,532,696	3,632,864
Prepaid expenses and other current assets	3	3,284,326	9,683,059
Deferred tax assets, net	11		332,386
Total current assets		10,865,060	158,044,418
Non-current Assets:			
Fixed assets, net	4	442,640	7,709,204
Investments under equity method	5	3,747,493	6,714,853
Other investments	6	1,988,583	2,128,732
Long-term prepaid expenses	3		703,069
Total non-current assets		6,178,716	17,255,858
TOTAL ASSETS		17,043,776	175,300,276
LIABILITIES, MEZZANINE EQUITY AND SHAREHOLDERS EQUITY			
Current Liabilities:			
Accounts payable		575,520	4,236,695
Amounts due to related parties	15	185,409	327,532
Accrued expenses and other current liabilities	7	480,854	6,054,552
Total current liabilities		1,241,783	10,618,779
Commitments	13		
Minority interest			652,678
Mezzanine equity			
Series A convertible redeemable preferred shares (\$0.0001 par value; 14,250,000 shares authorized, issued and outstanding as of December 31, 2006 (liquidation value: \$21,375,000))	8	15,220,327	
Shareholders equity			
Common shares (\$0.0001 par value; 50,000,000 and 200,000,000 shares authorized; 22,000,000 and 68,386,838 shares issued and outstanding as of December 31, 2006 and 2007, respectively)	9	2,200	6,839
Additional paid-in capital		6,136,689	163,820,443
Accumulated deficit		(6,068,750)	(3,300,654)
Accumulated other comprehensive income		511,527	3,502,191
Total shareholders equity		581,666	164,028,819
TOTAL LIABILITIES, MEZZANINE EQUITY AND SHAREHOLDERS EQUITY		17,043,776	175,300,276

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

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VISIONCHINA MEDIA INC.

CONSOLIDATED STATEMENT OF OPERATIONS

(Amounts in U.S. dollars (US\$), except number of shares and per share data)

	Notes	For the period from April 8, 2005 (date of inception) to December 31, 2005	For the year ended December 31, 2006	2007
Revenues:				
Advertising service revenue			2,033,284	27,489,391
Advertising equipment revenue		290,521	1,839,598	1,896,200
Total revenues:		290,521	3,872,882	29,385,591
Cost of revenues:				
Advertising service cost			3,967,081	12,801,957
Advertising equipment cost		261,504	1,639,895	1,583,325
Total cost of revenues:		261,504	5,606,976	14,385,282
Gross profit (loss)		29,017	(1,734,094)	15,000,309
Operating expenses:				
Selling and marketing		12,941	393,474	2,149,067
General and administrative		373,274	1,673,817	2,949,509
Total operating expenses		386,215	2,067,291	5,098,576
Government grant			125,953	
Loss from equity method investees		(104,475)	(469,841)	(1,262,273)
Operating profit (loss)		(461,673)	(4,145,273)	8,639,460
Interest income		45,264	98,873	505,888
Other expenses			(22,608)	(95,719)
Net income (loss) before income taxes		(416,409)	(4,069,008)	9,049,629
Income taxes	11			332,386
Net income (loss) after income taxes		(416,409)	(4,069,008)	9,382,015
Minority interest				11,343
Net income (loss)		(416,409)	(4,069,008)	9,393,358
Deemed dividend on convertible redeemable preferred shares			1,583,333	6,625,262
Net income (loss) attributable to holders of common shares		(416,409)	(5,652,341)	2,768,096
Net income (loss) per share:				
Basic		(0.02)	(0.26)	0.11
Diluted		(0.02)	(0.26)	0.11
Shares used in computation of net income (loss) per share:				

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Basic	22,000,000	22,000,000	24,709,522
Diluted	22,000,000	22,000,000	25,771,702
Share-based compensation expenses during the related periods included in:			
Cost of revenues		37,576	34,431
Selling and marketing expenses		5,374	135,722
General and administrative expenses		35,802	51,209

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

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Table of Contents**VISIONCHINA MEDIA INC.****CONSOLIDATED STATEMENTS OF CHANGES OF
SHAREHOLDERS EQUITY AND COMPREHENSIVE INCOME**

(Amounts in U.S. dollars (\$), except number of shares)

	Common shares		Additional paid-in capital	Accumulated Deficit	Accumulated other comprehensive income	Total shareholders equity	Comprehensive Income (losses)
	Number	Amount					
Balance at April 8, 2005 (Date of inception)							
Issue of shares	22,000,000	2,200	6,039,001			6,041,201	
Deemed shareholder s contribution			18,936			18,936	
Cumulative translation adjustment					150,078	150,078	150,078
Net loss				(416,409)		(416,409)	(416,409)
							(266,331)
Balance at December 31, 2005	22,000,000	2,200	6,057,937	(416,409)	150,078	5,793,806	
Share-based compensation			78,752			78,752	
Cumulative translation adjustment					361,449	361,449	361,449
Net loss				(4,069,008)		(4,069,008)	(4,069,008)
							(3,707,559)
Deemed dividend on convertible redeemable preferred shares				(1,583,333)		(1,583,333)	
Balance at December 31, 2006	22,000,000	2,200	6,136,689	(6,068,750)	511,527	581,666	
Issuance of common shares pursuant to initial public offering	13,500,000	1,350	100,438,650			100,440,000	
Direct offering expenses			(3,725,432)			(3,725,432)	
Conversion of redeemable preferred shares to common shares	32,139,088	3,214	60,106,814			60,110,028	
Exercise of share options	747,750	75	642,360			642,435	
Share-based compensation			221,362			221,362	
Cumulative translation adjustment					2,990,664	2,990,664	2,990,664
Net income				9,393,358		9,393,358	9,393,358
							12,384,022
Deemed dividend on convertible redeemable preferred shares				(6,625,262)		(6,625,262)	
Balance at December 31, 2007	68,386,838	6,839	163,820,443	(3,300,654)	3,502,191	164,028,819	

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

Table of Contents**VISIONCHINA MEDIA INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Amounts in U.S. dollars (US\$), except number of shares and per share data)

	For the period from April 8, 2005 (date of inception) to December 31, 2005	For the year ended December 31, 2006	2007
Cash flows from operating activities:			
Net income (loss)	(416,409)	(4,069,008)	9,393,358
Adjustments to reconcile net loss to net cash used in operating activities:			
Allowance for doubtful accounts		72,146	
Depreciation and amortization	3,743	41,491	306,491
Loss from equity investees	104,475	469,841	1,262,273
Share-based compensation		78,752	221,362
Waiver of rental expenses by a former shareholder	18,936		
Deferred tax			(332,386)
Minority interest			(11,343)
Changes in operating assets and liabilities:			
Accounts receivables		(890,782)	(11,918,577)
Prepaid expenses and other current assets	(132,061)	(3,108,504)	(6,719,468)
Amounts due from related parties	(42,905)	(1,386,012)	(1,904,292)
Accounts payable	73,555	471,521	531,573
Accrued expenses and other current liabilities	94,976	376,816	3,028,758
Amounts due to related parties		117,970	141,712
Net cash used in operating activities	(295,690)	(7,825,769)	(6,000,540)
Cash flows from investing activities:			
Acquisition of fixed assets	(54,826)	(405,427)	(4,338,779)
Amounts due from related parties	(1,224,080)	1,259,525	
Investments in equity method investment	(2,003,667)	(2,274,386)	(3,854,500)
Other investments		(1,979,565)	
Net cash used in investing activities	(3,282,573)	(3,399,853)	(8,193,279)
Cash flows from financing activities:			
Proceeds from issuance of common shares, net of issuance cost	6,060,137		99,230,318
Proceeds from issuance of Series A convertible redeemable preferred shares, net of issuance cost		13,636,994	
Proceeds from issuance of Series B convertible redeemable preferred shares, net of issuance cost			38,264,439
Contributions from a minority shareholder of a subsidiary			685,439
Proceeds from exercise of share options			642,435
Net cash provided by financing activities	6,060,137	13,636,994	138,822,631
Effect of changes in exchange rate	117,204	205,243	1,295,154
Net increase in cash and cash equivalents	2,599,078	2,616,615	125,923,966

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Cash and cash equivalents at the beginning of the period/year		2,599,078	5,215,693
Cash and cash equivalents at the end of the period/year	2,599,078	5,215,693	131,139,659

Supplemental disclosure of cash flow information

Income taxes paid

Interest paid

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

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VISIONCHINA MEDIA INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in U.S. dollars (\$), except number of shares and per share data)

1. ORGANIZATION AND PRINCIPAL ACTIVITIES

VisionChina Media Inc. (the Company) was incorporated under the laws of the Cayman Islands on January 27, 2006. The Company and its variable interest entities and subsidiaries (the Group) sell advertising time on its out-of-home digital television networks in the People's Republic of China (the PRC). The Group's principal geographic market is in the PRC.

The Company holds its interest in the operating subsidiaries and investees through a holding company, China Digital Technology (Shenzhen) Co., Ltd. (CDTC, formerly known as China Digital Technology Consulting (Shenzhen) Co., Ltd.), which is a wholly owned company it established in the PRC on March 9, 2006. The Company does not conduct any substantive operations of its own, but conducts its primary business operations through CDTC's variable interest entity (VIE), China Digital Mobile Television Co., Ltd. (CDMTV) and CDMTV's subsidiaries and investees. CDMTV was incorporated under the laws of the PRC on April 8, 2005.

Chinese laws and regulations prohibit or restrict foreign ownership of media content and advertising business. To comply with these foreign ownership restrictions, the Group invests in ventures with local television stations and provides advertising services on its out-of-home digital television networks in the PRC through CDMTV, a PRC legal entity, which was established by co-founders of the Company. The paid-in capital of CDMTV was funded by the Company or CDTC through a loan extended to the co-founders. CDTC has entered into certain exclusive agreements with CDMTV, which obligate the Company to absorb a majority of the risk of loss from CDMTV's activities and entitle to receive a majority of its residual returns. In addition, the Company through CDTC has entered into certain agreements with the two individuals including a loan agreement for the paid-in capital of CDMTV described above, an option agreement to acquire the shareholding in CDMTV when permitted by the PRC laws, and a share pledge agreement for the shares in CDMTV held by the co-founders. The Company and CDTC hold all the variable interests of CDMTV, and the Company and CDTC have been determined to be the most closely associated with CDMTV. Therefore, the Company is primary beneficiary of CDMTV.

Based on these contractual arrangements, the Company believes that CDMTV should be considered as a Variable Interest Entity under FASB Interpretation No. 46R (FIN 46R), *Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51*, because the equity investors in CDMTV do not have the characteristics of a controlling financial interest and the Company through CDTC is the primary beneficiary of CDMTV. Accordingly, the Company believes that CDMTV should be consolidated under FIN 46R.

The contractual agreements described above provide for effective control of CDMTV to be transferred to the Company on March 30, 2006. The shareholders of CDMTV and the Company were the same with same percentage equity interest. There was no change in control or ownership interests as a result of this transaction. Since the transaction was accounted for as a reorganization under common control, the financial statements present the operation of CDMTV since inception on an as-if-pooled basis. Prior to the transaction, the Company and CDTC were shell companies with minimal assets and no liabilities.

On February 15, 2007, CDTC and CDMTV entered into a series of new agreements, which replaced the agreements entered into on March 30, 2006. These contractual arrangements continue to enable the Company to exercise effective control over CDMTV and its subsidiaries and receive substantially all of the economic benefits of CDMTV and its subsidiaries for an extended period of 25 years.

Table of Contents**VISIONCHINA MEDIA INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Amounts in U.S. dollars (\$), except number of shares and per share data)**

The Group's consolidated assets do not include any collateral for CDMTV's obligations. The carrying amount of the total assets of CDMTV as of December 31, 2007 was \$73,144,561 and there was no pledge or collateral of its assets. Furthermore, creditors of CDMTV have no recourse to the general credit of CDTC which is the primary beneficiary of CDMTV.

As of December 31, 2007, subsidiaries and variable interest entities of the Company and CDMTV's subsidiaries include the following entities:

Companies	Date of acquisition	Date of establishment	Place of establishment	Percentage of ownership
<u>Subsidiary of the Company</u>				
CDTC	N/A	March 9, 2006	PRC	100%
<u>Variable interest entity of CDTC</u>				
CDMTV	(note)	April 8, 2005	PRC	100%
<u>Subsidiaries of CDMTV</u>				
Shenzhen Gaoqing Digital Television Investment Co., Ltd. (Gaoqing Digital Television)	February 17, 2006	June 16, 2004	PRC	100%
Beijing Beiguang Media Mobile Television Advertising Co., Ltd. (Beiguang Media)	N/A	December 18, 2006	PRC	100%
Beijing Hua Jingshi Media Advertising Co., Ltd. (Beijing Hua Jingshi)	N/A	July 26, 2007	PRC	100%
Beijing Hua Meishi Advertising Co., Ltd. (Beijing Hua Meishi)	N/A	May 25, 2007	PRC	100%
Nanjing Hua Meishi Advertising Co., Ltd. (Nanjing Hua Meishi)	N/A	July 16, 2007	PRC	100%
Shenzhen Hua Meishi Advertising Co., Ltd. (Shenzhen Hua Meishi)	N/A	June 29, 2007	PRC	100%
Shenzhen Huashixin Culture Media Co., Ltd. (Shenzhen Huashixin)	N/A	September 3, 2007	PRC	100%
Nanjing Media Culture Co., Ltd. (Nanjing Media Culture)	N/A	March 28, 2007	PRC	100%
Guangzhou Jiaojian Multimedia Information Technology Co., Ltd. (Guangzhou Jiaojian)	N/A	October 8, 2007	PRC	50%

Note: Through a series of recapitalization, CDMTV becomes a variable interest entity of CDTC

Table of Contents**VISIONCHINA MEDIA INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Amounts in U.S. dollars (\$), except number of shares and per share data)

As of December 31, 2007, the CDMTV's equity method investees, include the following entities:

Investee companies	Date of acquisition	Date of establishment	Place of establishment	Percentage of ownership
Chengdu Mobile Digital Television Company Limited (Chengdu Mobile)	N/A	April 29, 2005	PRC	49%
Haerbin China Mobile Television Company Limited (Haerbin Mobile)	N/A	November 10, 2005	PRC	49%
Jilin Mobile Television Company Limited (Jilin Mobile)	N/A	November 8, 2005	PRC	49%
Dalian Mobile Digital Television Company Limited (Dalian Mobile)	N/A	February 20, 2006	PRC	49%
Henan China Digital Mobile Television Company Limited (Henan Mobile)	N/A	July 4, 2006	PRC	49%
Hubei China Digital Television Company Limited (Hubei Mobile)	N/A	July 26, 2006	PRC	49%
Suzhou China Digital Mobile Television Company Limited (Suzhou Mobile)	N/A	February 17, 2007	PRC	49%
Changzhou China Digital Mobile Television Company Limited (Changzhou Mobile)	N/A	March 19, 2007	PRC	49%
Ningbo China Digital Mobile Television Company Limited (Ningbo Mobile)	N/A	April 5, 2007	PRC	49%

The CDMTV's equity method investees have been separately established with 9 separate parties for the purpose of engaging in provision of digital mobile television advertising services in the PRC. CDMTV contributed cash and another investor contributed advertising broadcasting right into the equity method investees for 49% and 51% equity interest, respectively.

On February 17, 2006, CDMTV acquired 51% equity interest in Gaoqing Digital Television for cash consideration of \$1,318,798. On March 9, 2006, CDMTV acquired the remaining 49% equity interest in Gaoqing Digital Television for cash consideration of \$1,280,623. Prior to the acquisition, Gaoqing Digital Television had no business activities and its major assets were cash of \$1,055,652 and 25% equity interests in Shenzhen Mobile Television Company Limited (Shenzhen Mobile) which has been recorded under cost method (see note 6). Accordingly, this transaction has been accounted for as an acquisition of assets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*(a) Basis of presentation*

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

(b) Principles of Consolidation

The consolidated financial statements include the financial statements of the Company, its subsidiary and a variable interest entity for which the Company is the primary beneficiary. All inter-company transactions and balances have been eliminated on consolidation.

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VISIONCHINA MEDIA INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts in U.S. dollars (\$), except number of shares and per share data)

(c) Significant risks and uncertainties

The Group participates in a young and dynamic industry and believes that changes in any of the following areas could have a material adverse effect on the Group's future financial position, results of operations or cash flows: advances and trends in new technologies or industry standards; competition from other competitors; changes in key suppliers; changes in certain strategic relationships; regulatory or other PRC related factors; and risks associated with the Group's ability to attract and retain employees necessary to support its growth; and general risks associated with the advertising industry.

(d) 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 maturities of three months or less when purchased.

(e) Fixed assets, net

Fixed assets are carried at cost less accumulated depreciation and amortization. Assembly in progress is not depreciated until it is ready for their intended use.

Depreciation and amortization is computed on a straight-line basis over the following estimated useful lives:

Computers and office equipment	5 years
Media display equipment	5 years
Motor vehicles	5 years
Leasehold improvements	lesser of lease terms or the estimated useful lives of the assets

(f) Investment under equity method

The investments for which the Group has the ability to exercise significant influence are accounted for using the equity method. Under the equity method, original investments are recorded at cost and adjusted by the Group's share of undistributed earnings or losses of these entities, by the amortization of intangible assets recognized upon purchase price allocation and by dividend distributions or subsequent investments. All unrecognized inter-company profits and losses have been eliminated under the equity method.

The Group generates a portion of its revenues from sales of advertising time on mobile television networks which are owned by its equity method investees. Because the operations of the Group's investees under equity method form an integral part to the Group's operating activities, the Group's share of undistributed earnings or losses of these entities are classified as part of the Group's operating income.

When the estimated amount to be realized from the investments falls below its carrying value, an impairment charge is recognized in the consolidated statements of operations when the decline in value is considered other than temporary.

(g) Other investments

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The Group's investments in non-marketable equity securities for which the Group does not have the ability to exercise significant influence or control are accounted for using the cost method. Dividends and other

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VISIONCHINA MEDIA INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts in U.S. dollars (\$), except number of shares and per share data)

distributions of earnings from investees, if any, are included in income when declared. We periodically evaluate the carrying value of our investments accounted for under the cost method of accounting and any impairment is included in our consolidated statements of operations.

(h) Impairment of long-lived assets

The Group reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may no longer be recoverable. When these events occur, the Group measures impairment by comparing the carrying value of the long-lived assets to the estimated undiscounted future cash flows expected to result from the use of the assets and their eventual disposition. If the sum of the expected undiscounted cash flow is less than the carrying amount of the assets, the Group would recognize an impairment loss based on the fair value of the assets.

(i) Revenue recognition

(1) Time-based advertising services

For time-based advertising services, the Group recognizes revenues as the advertisements are aired over the contractual term based on the schedules agreed with the customer. Payments received in advance of services provided are recorded as customer deposits.

Deferred revenue is recorded when services are provided before the applicable revenue recognition criteria as required by SAB104 are fulfilled.

(2) Barter transactions

Periodically, the Group engages in barter transactions which are generally recorded at fair value. If such value is not determinable within reasonable limits, the transaction is recognized based on the carrying value of the product or services provided. The amount of revenues recognized for barter transactions was insignificant for each of the periods presented.

(3) Equipment

Revenues from sales of advertising equipment, which are from related parties, are recognized upon delivery, at which all four of the following criteria are met: (i) pervasive evidence that 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.

Advertising equipment revenues are net of value-added tax incurred, which amounted to \$49,389, \$312,732 and \$322,354 for the period from April 8, 2005 (date of inception) to December 31, 2005, and the years ended December 31, 2006 and 2007, respectively.

(j) Cost of revenues

Cost of advertising services revenues consist primarily of media costs payable under exclusive advertising agreements, depreciation, business taxes and surcharges and other operating costs. Media cost are expensed as incurred.

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VISIONCHINA MEDIA INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts in U.S. dollars (\$), except number of shares and per share data)

The amount of business taxes and surcharges included in cost of advertising services totaled \$nil, \$39,940 and \$1,171,028 for the period from April 8, 2005 (date of inception) to December 31, 2005, and the years ended December 31, 2006 and 2007, respectively.

Cost of equipment revenues consists primarily of purchase cost of digital television displays and other related equipment.

(k) Operating leases

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

(l) Foreign currency translation

The functional and reporting currency of the Company 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 the statements of operations.

The financial records of the Company's subsidiary and its variable interest entity are maintained in its local currency, the Renminbi (RMB), which is their 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 period. Translation adjustments are reported as cumulative translation adjustments and are shown as a separate component of other comprehensive income (loss) in the statement of shareholders' equity (deficiency).

(m) Net income (loss) per share

Basic net income (loss) per share is computed by dividing net income (loss) attributable to holders of common shares by the weighted average number of common shares outstanding during the period/year. Diluted net income (loss) per common share reflects the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted into common shares. Common share equivalents are excluded from the computation in 2005 and 2006 as their effects would be antidilutive. Convertible redeemable preferred shares were excluded from the computation of diluted earnings per share in the years ended December 31, 2006 and 2007, as their effects would have been antidilutive. The company's dilutive securities consisted of outstanding share options and convertible redeemable preferred shares. As of December 31, 2007, the Company had outstanding share options amounted to 4,838,359. As of December 31, 2006, the Company had outstanding share options of 1,894,000 and 14,250,000 convertible redeemable preferred shares issued and outstanding. No diluted potential common share equivalents were outstanding as of December 31, 2005.

As a result of the reorganization (note 1), the outstanding common shares have been retroactively restated to 22,000,000 shares in the denominator for the period from April 8, 2005 (date of inception) to December 31, 2005 and for the year ended December 31, 2006 presented.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts in U.S. dollars (\$), except number of shares and per share data)

The following table sets forth the computation of basic and diluted net income (loss) per share.

	For the period from April 8, 2005 (date of inception) to December 31, 2005	For the year ended December 31, 2006	2007
Numerator:			
Net income (loss) attributable to common shareholders	\$ (416,409)	\$ (5,652,341)	\$ 2,768,096
Denominator:			
Weighted average number of shares outstanding-basic	22,000,000	22,000,000	24,709,522
Effect of dilutive securities-Share options			1,062,180
Weighted average number of shares used for diluted income (loss) per share	22,000,000	22,000,000	25,771,702
Basic income (loss) per share	(0.02)	(0.26)	0.11
Diluted income (loss) per share	(0.02)	(0.26)	0.11
<i>(n) Income taxes</i>			

The Group follows the liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial reporting and tax bases of assets and liabilities using enacted tax rates that will be in effect for the period in which the differences are expected to reverse. The Group records a valuation allowance against the amount of deferred tax assets that it determines is not more likely than not of being realized. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date.

(o) Share-based compensation

Share-based payments to employees are measured based on the fair values of share option on the grant dates and recognized as compensation expense over the requisite service periods with a corresponding addition to paid-in capital.

Share awards issued to non-employees are measured at fair value at the earlier of the commitment date or the date the service is completed and recognized over the period the service is provided or as goods are received. The Group uses the Black-Scholes option pricing model to measure the value of options granted to non-employees and employees at each measurement date.

(p) Comprehensive income (loss)

Comprehensive income (loss) is defined as the change in equity of the Group during a period from transactions and other events and circumstances excluding transactions resulting from investments by owners and distributions to owners. Comprehensive income (loss) is reported in the statements of changes of shareholders' equity. Accumulated other comprehensive income of the Group represents the cumulative foreign currency translation adjustment and net income (loss) for the year.

(q) Use of estimates

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The preparation of consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and

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VISIONCHINA MEDIA INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts in U.S. dollars (\$), except number of shares and per share data)

disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant accounting estimates reflected in the Group's consolidated financial statements include allowance for doubtful debts, valuation of deferred tax assets, useful lives of fixed assets and fair value of stock options.

(r) Government grants

Government grants include cash subsidies received from the PRC government by the operating subsidiaries of the Company. Such subsidies are generally provided as incentives from the local government to encourage the expansion of local businesses. Government grants are recognized when received and all the conditions specified in the grant have been met.

(s) Concentration of Risks

Concentration of Credit Risk

Financial instruments that potentially subject the Company to significant concentration of credit risk consist primarily of cash and cash equivalents and accounts receivable. As of December 31, 2006 and 2007, substantially all of the Group's cash and cash equivalents were managed by financial institutions. Accounts receivable are typically unsecured and are derived from revenues earned from customers in the PRC. The risk with respect to accounts receivable is mitigated by credit evaluations the Group perform on its customers and ongoing monitoring process on outstanding balances.

Current vulnerability due to certain other concentrations

The Group's operations may be adversely affected by significant political, economic and social uncertainties in the PRC. Although the PRC government has been pursuing economic reform policies for more than 20 years, no assurance can be given that the PRC government will continue to pursue such policies or that such policies may not be significantly altered, especially in the event of a change in leadership, social or political disruption or unforeseen circumstances affecting the PRC's political, economic and social conditions. There is also no guarantee that the PRC government's pursuit of economic reforms will be consistent or effective.

Substantially all of the Group's businesses are transacted in RMB, which is not freely convertible into foreign currencies. On January 1, 1994, the PRC government abolished the dual rate system and introduced a single rate of exchange as quoted daily by the People's Bank of China. However, the unification of the exchange rates does not imply the convertibility of RMB into United States dollars or other foreign currencies. All foreign exchange transactions continue to take place either through the People's Bank of China or other banks authorized to buy and sell foreign currencies at the exchange rates quoted by the People's Bank of China. Approval of foreign currency payments by the People's Bank of China or other institutions requires submitting a payment application form together with supplier invoices, shipping documents and signed contracts.

(t) Recently issued accounting standards

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, Fair Value Measurement (SFAS No. 157). SFAS No. 157 addresses standardizing the measurement of fair value for companies that are required to use a fair value measure of recognition for recognition or disclosure purposes. The FASB defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measure date . SFAS No. 157 is effective for financial

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VISIONCHINA MEDIA INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts in U.S. dollars (\$), except number of shares and per share data)

statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The Group is currently evaluating the impact, if any, of SFAS No. 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 No. 159). SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Group is currently evaluating the impact of SFAS No. 159.

In June 2007, the FASB also ratified EITF 07-3, Accounting for Nonrefundable Advance Payments for Goods or Services Received for Use in Future Research and Development Activities (EITF 07-3). EITF 07-3 requires that nonrefundable advance payments for goods or services that will be used or rendered for future research and development activities be deferred and capitalized and recognized as an expense as the goods are delivered or the related services are performed. EITF 07-3 is effective for fiscal years beginning after December 15, 2007. The Group is currently evaluating the impact of EITF 07-3. The Group do not expect the adoption of EITF 07-3 to have a material effect on the consolidated results of operations and financial condition.

In December 2007, the FASB issued SFAS No. 141R, Business Combination (SFAS No. 141R), to improve reporting creating greater consistency in the accounting and financial reporting of business combinations. The standard requires the acquiring entity in a business combination to recognize all (and only) the assets acquired and liabilities assumed in the transaction; establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed; and requires the acquirer to disclose to investors and other users all of the information they need to evaluate and understand the nature and financial effect of the business combination. SFAS No. 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. An entity may not apply it before that date. The Group is currently evaluating whether the adoption of SFAS No. 141R will have a significant effect on its consolidated financial position, results of operations or cash flows.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements (SFAS No. 160) to improve the relevance, comparability, and transparency of financial information provided to investors by requiring all entities to report noncontrolling (minority) interests in subsidiaries in the same way as required in the consolidated financial statements. Moreover, SFAS No. 160 eliminates the diversity that currently exists in accounting for transactions between an entity and noncontrolling interests by requiring they be treated as equity transaction. SFAS No. 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Earlier adoption is prohibited. The Group is currently evaluating whether the adoption of SFAS No. 160 will have a significant effect on its consolidated financial position, results of operations or cash flows.

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(Amounts in U.S. dollars (\$), except number of shares and per share data)

3. PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets consist of the followings:

	As of December 31,	
	2006	2007
Advances to suppliers	\$ 2,946,803	\$ 8,566,552
Staff advances	208,329	46,845
Deposits	15,481	555,069
Interest receivables		350,188
Others	113,713	164,405
	\$ 3,284,326	\$ 9,683,059

Advances to suppliers mainly represent prepayment for media cost. Deposits mainly represent deposits for media cost agreements.

At the balance sheet date, the long-term prepaid expenses included in non-current assets mainly represent the prepaid service fee.

4. FIXED ASSETS, NET

Fixed assets consist of the following:

	As of December 31,	
	2006	2007
Computers and office equipment	\$ 190,890	\$ 402,474
Media display equipment	83,194	6,962,089
Motor vehicles	56,476	140,688
Leasehold improvements	158,179	570,108
Sub-total	\$ 488,739	\$ 8,075,359
Less: accumulated depreciation and amortization	46,099	366,155
	\$ 442,640	\$ 7,709,204

Depreciation and amortization expense was \$3,743, \$41,491 and \$306,491 for the period from April 8, 2005 (date of inception) to December 31, 2005, and for the years ended December 31, 2006 and 2007, respectively.

Included in media display equipment is assembly in progress of \$2,679,931. These assets will be placed in service in 2008.

5. INVESTMENTS UNDER EQUITY METHOD

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In 2005, CDMTV made cash investments totaling \$728,606 and \$667,889 for its 49% equity interests in Haerbin Mobile and Jilin Mobile, respectively.

On April 29, 2005, Champs Elysees Investment Co. Ltd., an entity under common control, invested \$607,172 into Chengdu Mobile to acquire 49% of its voting interests on CDMTV's behalf. In December 2005, Champs Elysees Investment Co. Ltd transferred the 49% voting interests in Chengdu Mobile to CDMTV at

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original cost in accordance with previously signed agreements. As a result, CDMTV has accounted for its investment in Chengdu Mobile since April 29, 2005.

In 2006, CDMTV made cash investments totaling \$753,006, \$753,006 and \$768,374 for its 49% equity interests in Dalian Mobile, Henan Mobile and Hubei Mobile, respectively.

In 2007, CDMTV made cash investments totalling \$965,581, \$772,465 and \$643,720 for its 49% equity interests in Suzhou Mobile, Changzhou Mobile and Ningbo Mobile, respectively. These equity method investees have been separately established with 3 separate parties for the purpose of engaging in provision of digital mobile television advertising services in the PRC.

In addition, CDMTV made additional cash investments of \$965,580 and \$507,154 to its existing equity method investees, Dalian Mobile and Hubei Mobile, respectively.

As of December 31, 2007, CDMTV has totally nine equity method investees. The Group has accounted for these investments using equity method of accounting.

The combined results of operations and financial position of these investments are summarized below:

	For the period from April 8, 2005 (date of inception) to December 31, 2005	For the year ended December 31,	
		2006	2007
<i>Condensed statement of operations information:</i>			
Revenue	\$ 80,771	\$ 681,751	\$ 1,783,008
Net losses	(171,335)	(631,128)	(2,124,146)
Group's equity in net loss of investees	\$ (83,954)	\$ (309,253)	\$ (1,040,832)

	As of December 31,	
	2006	2007
<i>Condensed balance sheet information:</i>		
Current assets	\$ 2,845,848	\$ 5,734,140
Non-current assets	3,605,746	8,440,377
Total assets	\$ 6,451,594	\$ 14,174,517
Current liabilities	\$ 1,132,015	\$ 4,464,240
Equity	5,319,579	9,710,277
Total liabilities and equity	\$ 6,451,594	\$ 14,174,517
Group's share of net assets	\$ 2,985,914	\$ 4,758,036

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As of December 31, 2006 and 2007, the carrying value of the Group's investments under equity method was \$3,747,493 and \$6,714,853, respectively. The difference between the carrying value of the Group's investments under equity method and the Group's share in its investees' net assets was attributable to the amount of gross profit recognized on the sales of certain media display equipment to its investees; and the adjustment attributable to intangible asset, which represent the broadcasting rights contributed by the investors, identified on formation and its related amortization.

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(Amounts in U.S. dollars (\$), except number of shares and per share data)

6. OTHER INVESTMENTS

In February 2006, the Group acquired 25% voting interest in Shenzhen Mobile, through CDMTV's subsidiary Gaoqing Digital Television, for cash consideration of \$1,543,769. Shenzhen Mobile is established in the PRC and engages in provision of digital mobile television advertising services in the PRC. As the Group cannot exercise significant influence over Shenzhen Mobile's operating and financial activities, the Group accounts for this investment using the cost method of accounting.

In August 2006, the Group acquired 14% voting interest in Wuxi Guangtong Digital Mobile Television Company Limited (Guangtong Mobile), for cash consideration of \$435,796. Guangtong Mobile is established in the PRC and engages in provision of digital mobile television advertising business in the PRC. The Group accounts for this investment using the cost method of accounting.

7. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities consist of the following:

	As of December 31,	
	2006	2007
Accrued expenses	\$ 24,066	\$ 327,566
Accrued direct offering expenses		2,519,259
Accrued professional service fees	121,019	401,608
Accrued payroll and welfare	144,609	483,666
Taxes payable	64,775	562,241
Customer deposits	69,919	653,201
Deferred revenue		926,573
Others	56,466	180,438
	\$ 480,854	\$ 6,054,552

8. CONVERTIBLE REDEEMABLE PREFERRED SHARES

In April 2006, the Company issued 14,250,000 Series A convertible redeemable preferred shares (Series A Preferred Share(s)) for \$1 per share for total proceeds of \$13,636,994, net of issuance costs of \$613,006.

In March and July 2007, the Company issued in aggregate 17,889,088 Series B convertible redeemable preferred shares (Series B Preferred Share(s)) for \$2.236 per share for total proceeds of \$38,264,439, net of issuance costs of \$1,735,561.

Series A Preferred Shares and Series B Preferred Shares are collectively referred to as the Preferred Share(s) .

Upon completion of the initial public offering in December 2007, all convertible preferred shares automatically converted into 32,139,088 common shares. As of December 31, 2006, the Company had 14,250,000 Series A Preferred Shares outstanding.

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The holders of Preferred Shares have various rights and preferences as follows:

Redemption

The Preferred Shares shall not be redeemable at the option of holders of the Preferred Shares except:

(1) Optional redemption beginning on April 13, 2009; or suspension or termination of wireless television signals which represented more than 50% of the Company's television network. The redemption price for each of Preferred Shares shall be equal one hundred and fifty percent (150%) of the applicable original issue price, plus in each case all dividends declared and unpaid with respect thereto per Preferred Share then held by such holder; or

(2) Insufficient funds. If the Company's assets or funds which are legally available on the date that any redemption payment is due are insufficient to pay in full all redemption payments to be paid on such date, those assets and fund funds which are legally available shall be used to pay all redemption payments due on such date ratably in proportion to the full amounts to which the holders to which such redemption payments are due would otherwise be respectively entitled thereon.

The Company accrued the premium over the redemption period as a deemed dividend with a debit to the deficit of \$1,583,333 and \$6,625,262 for the years ended December 31, 2006 and 2007, respectively.

Dividends

Each holder of Preferred Shares shall be entitled to receive dividends, on a pari passu basis, out of any funds or assets legally available therefor, prior and in preference to any declaration or payment of any dividend on the common shares, at 8% in respect of such Preferred Shares when, as and if declared by the Board of Directors, but not otherwise. All such dividends per Preferred Share shall be cumulative from the date that the Board of Directors declares such dividends.

Conversion

Subject to the provisions of the Memorandum and the Articles, Preferred Shares may, at the option of the holder thereof, be converted at any time into fully-paid and nonassessable common shares based on the applicable then-effective conversion price. The initial conversion price for Series A Preferred Shares and Series B Preferred Shares shall be US\$1.00 and US\$2.236, respectively, and the initial per share conversion ratio for Preferred Shares to common shares shall be 1:1, which shall be subject to adjustment subject to adjustment for stock dividends, stock splits, combinations and similar events. Each Preferred Share shall automatically be converted into common shares upon the closing of a qualified initial public offering, based on the applicable then-effective conversion price.

Voting

Subject to the provisions of the Memorandum and the Articles, at all general meetings of the Company: (i) the holder of each common share issued and outstanding shall have one vote in respect of each common share held, and (ii) the holder of Preferred Shares shall be entitled to such number of votes as equals the whole number of common shares into which such holder's collective Preferred Shares are convertible immediately after the close of business on the record date of the determination of the Company's shareholders entitled to vote or, if no such record date is established, at the date such vote is taken or any written consent of the Company's shareholders is first solicited. Subject to provisions to the contrary elsewhere in the Memorandum and the

Table of Contents**VISIONCHINA MEDIA INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Amounts in U.S. dollars (\$), except number of shares and per share data)**

Articles, or as required by the Statute, the holders of Series A Preferred Shares shall vote together with the holders of common shares, and not as a separate class or series, on all matters put before the shareholders.

Liquidation

Upon any liquidation, dissolution or winding up of the Company, either voluntary or involuntary, before any distribution or payment shall be made with respect to any common shares, an amount shall be paid on a pari passu basis with respect to each Preferred Share equal to the greater of (i) one hundred fifty percent (150%) of the applicable original issue price (as adjusted for any dividend of shares, division or combination of shares recapitalizations and the like) plus all dividends declared and unpaid with respect thereto (the Preference Amount); and (ii) a pro rata share of all funds and assets of the Company legally available for distribution to shareholders of the Company on the basis as if all the Preferred Shares were converted into common shares immediately before the holding of the general meeting, plus all declared but unpaid dividends thereon.

9. COMMON SHARES

The Company's Memorandum and Articles of Association, as amended, authorizes the Company to issue 50,000,000 common shares with a nominal or par value of \$0.0001 each. On April 12, 2006, the Company issued 22,000,000 common shares to the then shareholders of CDMTV as part of the Company's re-organization plan.

Upon completion of the initial public offering (IPO) in December 2007, the Company's Memorandum and Articles of Association, as amended, authorizes the Company to issue 200,000,000 common shares with a nominal or par value of US\$0.0001 each. There were 68,386,838 common shares issued and outstanding as of December 31, 2007 after conversion of 14,250,000 Series A and 17,889,088 Series B convertible redeemable preferred shares to 32,139,088 common shares upon completion of IPO, issuance of 13,500,000 common shares in connection with the initial public offering, and 747,750 share options were exercised with the issuance of 747,750 common shares during the year.

10. SHARE OPTION PLAN

On December 8, 2006, the Group adopted the 2006 share incentive plan (the Plan) which allows the Group to offer a variety of incentive awards to consultants and employees. As of December 31, 2007, the Group has reserved 7,000,000 common shares for issuance under the Plan. In December 2006, the Group granted 1,894,000 share options to employees and consultants with exercise prices ranging from \$0.60 and \$1.00. In 2007, the Group granted 3,996,639 share options to consultants and employees with exercise prices ranging from \$1.00 and \$6.545.

Options granted generally vest 25% after the first year of service and rateably each month over the remaining 36-month period. The contractual term of options granted is generally ten years. Included in 3,996,639 share options granted in 2007, 2,506,748 options granted were vested based on certain performance conditions.

Management has used the Black-Scholes option pricing model to estimate the fair value of the options on grant date with the following weighted-average assumptions:

	December 8, 2006	April 6, 2007	May 16, 2007	July 6, 2007	August 30, 2007	October 31, 2007
Risk-free interest rate	5.02% - 5.05%	4.99%	4.96%	5.31%	4.81%	4.42%
Expected life	5.35 - 6.24 years	1.89 years	2.67 years	1.72 years	2.53 years	1.85 years
Assumed volatility	0.361	0.361	0.361	0.317	0.317	0.350
Expected dividends	0%	0%	0%	0%	0%	0%

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Assumed volatility is derived by referring to the average annualized standard deviation of the share price of listed comparable companies. The expected life of the option has been assumed to be exercised evenly throughout the option life. The risk free interest rate is based on the yield to maturity of the PRC government bond as of the grant date with maturity closest to the relevant option expiry date.

The fair value of the option granted in April 2007 and May 2007 was determined on contemporaneous basis by the management of the Company, with reference to Series B convertible redeemable preferred shares. For the options granted on December 8, 2006, July 6, 2007, August 30, 2007 and October 31, 2007, the fair value of the options were determined based on contemporaneous valuation by a third party valuation specialist.

A summary of options under the Plan as of December 31, 2006 and 2007 and changes in the periods is presented below:

	Number of Shares	Weighted- average Exercise Price	Weighted-average Remaining Contractual Life	Weighted- average Fair Value
Outstanding as of January 1, 2006				
Granted on December 8, 2006	1,894,000	0.86		0.19
Exercised				
Forfeited				
Outstanding as of January 1, 2007	1,894,000	0.86		0.19
Granted				
April 6, 2007	800,739	1.90		0.22
May 16, 2007	200,000	1.84		0.33
July 6, 2007	1,230,000	3.545		0.04
August 30, 2007	1,005,900	6.545		0.07
October 31, 2007	760,000	6.545		1.30
Exercised	(747,750)	0.86		0.21
Forfeited	(304,530)	1.65		0.18
Outstanding as of December 31, 2007	4,838,359	3.78	9.46	0.31
Vested and expected to vest as of				
December 31, 2007	4,835,800	3.25	9.38	0.23
Exercisable as of December 31, 2007	1,127,041	3.13	9.48	0.06

The fair value of common shares on December 8, 2006, April 6, 2007, May 16, 2007, July 6, 2007, August 30, 2007 and October 31, 2007 were approximately \$0.6, \$1.52, \$1.52, \$1.78, \$2.71 and \$6.31 respectively.

The aggregate intrinsic value of the share option at each of the grant dates was zero, as the exercise price is higher than fair value of the common share. The intrinsic value of the outstanding share option was \$4.72 as of December 31, 2007.

The total fair value of options vested and expensed for the period from April 8, 2005 (date of inception) to December 31, 2005, and the years ended December 31, 2006 and 2007 was \$nil, \$78,752 and \$221,362, respectively. During the year ended December 31, 2007, compensation cost of \$34,431, \$135,722 and \$51,209 was recognized and included in cost of revenue, selling and marketing expense; and general and administrative expense, respectively.

Table of Contents**VISIONCHINA MEDIA INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Amounts in U.S. dollars (\$), except number of shares and per share data)**

As of December 31, 2007, there was \$799,378 of total unrecognized share-based compensation cost related to nonvested share options granted under the Plan. That cost is expected to be recognized over 4 years.

11. INCOME TAXES

The Company is a tax exempted company incorporated in the Cayman Islands and conducts substantially all of its business through its PRC subsidiary, CDTC and its PRC variable interest entity, CDMTV, which are generally subject to a 30% state enterprise income tax (EIT) and a 3% local income tax.

CDTC is governed by the Income Tax Law of the PRC concerning Foreign Investment and Foreign Enterprises (the Income Tax Law). Under income tax law, foreign invested enterprises satisfying certain criteria can enjoy preferential tax treatments. CDTC, located in Shenzhen Special Economic Zone, is subject to Foreign Enterprise Income Tax (FEIT) at a rate of 15%.

CDMTV s headquarters, located in Shenzhen Special Economic Zone, is subject to EIT at a rate of 15%. CDMTV has been recognized as a Culture Enterprise and thus its headquarter is entitled to full exemption from EIT from 2005 to 2008. CDMTV has sales branches located in various cities in the PRC which are subject to 30% EIT and 3% local income tax.

The Group had minimal operations in jurisdictions other than the PRC.

There was no current or deferred income tax expense or benefit for the period from April 8, 2005 (date of inception) to December 31, 2005 and the year ended December 31, 2006. Deferred income tax benefit was \$332,286 for the year ended December 31, 2007.

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

	As of December 31,	
	2006	2007
Deferred tax assets:		
Net operating loss carrying forward	\$ 116,054	\$ 331,276
Bad debt provision	10,822	
Fixed assets	1,481	1,110
Total deferred tax assets	128,357	332,386
Valuation allowance on deferred tax assets	(128,357)	
Net deferred tax assets	\$	\$ 332,386

The realization of the recorded deferred tax assets is dependent on generating sufficient taxable income prior to the expiration of net operating loss carry forwards of \$351,579 and \$1,846,589 as of December 31, 2006 and 2007, respectively, which will expire in year 2011 and 2012.

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(Amounts in U.S. dollars (\$), except number of shares and per share data)

A reconciliation of the income tax expense to the amount computed by applying the current tax rate to the income (loss) before income taxes in the statement of operations is as follows:

	2005	2006	2007
Expected taxation at PRC EIT statutory rate of 33%	\$ (137,415)	\$ (1,342,772)	\$ 3,099,808
Effect of tax exemption	93,596	1,258,234	(3,303,837)
Change in valuation allowance	43,819	84,538	(128,357)
Total income tax expense / (benefit)	\$	\$	\$ (332,386)

\$Nil, \$nil and \$1,560,697 would otherwise have been payable without tax holidays and tax concessions for the period from April 8, 2005 (date of inception) to December 31, 2005, and for the years ended December 31, 2006 and 2007, respectively. In addition, \$nil, \$nil and \$0.06 would be deducted on the basic income /losses per share for the period from April 8, 2005 (date of inception) to December 31, 2005, and for the years ended December 31, 2006 and 2007, respectively.

On January 1, 2008, a new enterprise income tax law in China took effect. The new law applies a uniform 25% enterprise income tax rate to both foreign invested enterprises and domestic enterprises. 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. The Ministry of Finance of the PRC and the State Administration of Taxation issued a circular Notice on preferential tax treatment of enterprise income tax in February 2008. The circular stipulates that newly established culture enterprises could enjoy the corporate income tax exemption treatment which has been approved by the authorities until the end of the holiday. CDMTV has already obtained the tax exemption approval certificate for year 2008.

Aggregate undistributed earnings of the Company's subsidiaries in the PRC that are available for distribution to the Company of approximately \$4 million at December 31, 2007 are considered to be indefinitely reinvested under APB opinion No. 23, and accordingly, no provision for has been made for the Chinese dividend withholding taxes that would be payable upon the distribution of those amounts to the Company. In an announcement formally made on February 22, 2008, the PRC authorities clarified that the distributions made out of undistributed earnings that arose prior to January 1, 2008 would not attract withholding tax.

In July 2006, the 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. The Group has made its assessment of the level of tax authority for each tax position (including the potential application of interest and penalties) based on the technical merits, and has measured the unrecognized tax benefits associated with the tax positions. Based on the evaluation by the Group, it is concluded that there are no significant uncertain tax positions requiring recognition in financial statements. The Group has no material unrecognized tax benefit which would favorably affect the effective income tax rate in future periods. The Group classifies interest and/or

Table of Contents**VISIONCHINA MEDIA INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Amounts in U.S. dollars (\$), except number of shares and per share data)**

penalties related to income tax matters in income tax expense. As of December 31, 2007, there is no interest and penalties related to uncertain tax positions. The years 2005 to 2007 remain subject to examination by the PRC tax authorities.

12. MAINLAND CHINA CONTRIBUTION PLAN AND PROFIT APPROPRIATION

The Group's full time employees in the PRC participate in a government-mandated multiemployer defined contribution plan pursuant to which certain medical care, unemployment insurance, employee housing fund and other welfare benefits are provided to employees. Chinese 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 for the period from April 8, 2005 (date of inception) to December 31, 2005, and for the years ended December 31, 2006 and 2007 were \$582, \$13,701 and \$53,387, respectively.

13. COMMITMENTS*(a) Lease commitments*

The Group has entered into certain leasing arrangements relating to the lease of the Group's office premises. Rental expense under operating leases for the period from April 8, 2005 (date of inception) to December 31, 2005, and for the years ended December 31, 2006 and 2007 were \$45,458, \$165,221 and \$373,917, respectively.

As of December 31, 2007, the Group was obligated under operating leases, which relate to office premises, requiring minimum rental as follows:

As of December 31,	
2008	\$ 537,618
2009	299,286
2010	101,304
2011	101,304
2012	101,304
2013 and thereafter	292,718
	\$ 1,433,534

(b) Others

The Group has entered into several agreements to pay media cost for the period of 5 to 10 years. As of December 31, 2007, future minimum purchase commitments under these agreements totalled \$129,686,869, which will be payable as follow:

As of December 31,	
2008	\$ 14,685,716
2009	15,773,332
2010	16,466,000
2011	15,975,839
2012	13,811,090

2013 and thereafter

52,974,892

\$ 129,686,869

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Table of Contents**VISIONCHINA MEDIA INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Amounts in U.S. dollars (\$), except number of shares and per share data)****14. SEGMENT AND GEOGRAPHIC INFORMATION**

The Group engaged in provision of advertising services and sales of digital equipment to its investee companies in the PRC. The Group's chief operating decision maker has been identified as the Chief Executive Officer, who reviews the consolidated results when making decisions about allocating resources and assessing performance of the Group.

Geographical information

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

Although the Group operates in multiple cities in China which include Beijing, Shanghai, Guangzhou, Shenzhen and Nanjing, it believes it operates in one segment as the Group provide services to customers irrespective of their locations. Accordingly all financial segment information can be found in the consolidated financial statements.

Major Customers

The Group contracts either directly with advertisers or through advertising agents. In 2007 the Group has contracted with the following advertising agents with 10% or more of the total advertising service revenues:

	2007
Agent A	\$ 4,770,915
Agent B	3,870,064
Agent C	3,554,534
Agent D	3,117,335

In 2007, the Group has not directly contracted with any advertiser which accounted for 10% or more of the total advertising service revenue. In 2005 and 2006, there were no advertisers or advertising agents which accounted for 10% or more of the total advertising service revenue.

The accounts receivable from a customer with the largest receivable balances represents 39% and 27% of the balance of the account as of December 31, 2006 and 2007, respectively.

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(Amounts in U.S. dollars (\$), except number of shares and per share data)

15. RELATED PARTY TRANSACTIONS

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

	As of December 31,	
	2006	2007
Investees		
Chengdu Mobile	\$ 162,447	\$ 674,547
Dalian Mobile	178,404	98,484
Haerbin Mobile	3,200	
Henan Mobile	817,089	838,977
Hubei Mobile	41,968	133,951
Jinlin Mobile	329,588	406,828
Changzhou Mobile		233,215
Ningbo Mobile		1,164,610
Guangtong Mobile		82,252
	\$ 1,532,696	\$ 3,632,864

The amounts due from related parties are non-interest bearing and repayable on demand.

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

	As of December 31,	
	2006	2007
Investees		
Chengdu Mobile	\$ 77,574	\$ 107,028
Dalian Mobile	9,063	51,798
Guangtong Mobile	7,556	8,640
Haerbin Mobile	7,594	
Hubei Mobile	75,838	7,829
Jilin Mobile	7,784	28,227
Henan Mobile		76,350
Suzhou Mobile		38,832
Ningbo Mobile		6,896
Changzhou Mobile		1,932
	\$ 185,409	\$ 327,532

Table of Contents**VISIONCHINA MEDIA INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Amounts in U.S. dollars (\$), except number of shares and per share data)***(c) Advertising equipment sales to investee companies*

The Group sold digital equipment at negotiated price to investees for a total amount of \$290,521, \$1,839,599 and \$1,896,200 for the period from April 8, 2005 (date of inception) to December 31, 2005, and for the years ended December 31, 2006 and 2007, respectively. Details are as follows:

	2005	2006	2007
Chengdu Mobile	\$ 192,110	\$ 366,772	\$ 158,605
Dalian Mobile		561,891	229,822
Haerbin Mobile	9,423	106,614	6,567
Henan Mobile		280,327	128,455
Hubei Mobile		50,399	148,042
Jilin Mobile	88,988	473,595	
Suzhou Mobile			216,571
Changzhou Mobile			313,558
Ningbo Mobile			694,580
	\$ 290,521	\$ 1,839,598	\$ 1,896,200

(d) Services rendered from investee companies

The Group has received broadcasting service from Chengdu Mobile, Dalian Mobile, Guangtong Mobile, Jilin Mobile, Hubei Mobile, Haerbin Mobile, Ningbo Mobile, Suzhou Mobile and Changzhou Mobile at negotiated prices for a total amount of \$nil, \$78,434 and \$267,412 for the period from April 8, 2005 (date of inception) to December 31, 2005, and for the years ended December 31, 2006 and 2007, respectively. Details are as follows:

	2005	2006	2007
Chengdu Mobile	\$	\$ 41,908	\$ 76,441
Dalian Mobile		13,350	40,668
Guangtong Mobile		9,092	102,531
Jinlin Mobile		14,084	19,228
Hubei Mobile			7,665
Haerbin Mobile			3,364
Ningbo Mobile			6,769
Suzhou Mobile			8,849
Changzhou Mobile			1,897
	\$	\$ 78,434	\$ 267,412

(e) Rental expense

During the period from April 8, 2005 (date of inception) to December 31, 2005, the Group rented office space from a former shareholder of CDMTV, Shenzhen Meidi Zhiye Development Co., Ltd. (Zhiye). The rate for rent was determined based on negotiated prices. The rental

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expense for that period was \$26,037. During that period, Zhiye leased another office building to the Group at nil consideration. The market value of the lease was about \$18,936. Such amount was then regarded as equity holder's contribution and recorded as rental expense and additional paid-in capital.

(f) Others

In March 2007, the Group borrowed an aggregate amount of \$2,246,453 from a related party, Shenzhen Meidi Zhiye Development Co., Ltd. The amount was interest-free and fully settled as of December 31, 2007.

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VISIONCHINA MEDIA INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts in U.S. dollars (\$), except number of shares and per share data)

In addition, for the period from April 8, 2005 (date of inception) to December 31, 2005, and for the years ended December 31, 2006 and 2007, the Group paid office decoration charges of \$79,830, \$6,306 and \$347,029, respectively, to a company, in which Mr. Li Limin's wife holds a beneficial interest.

16. PROFIT APPROPRIATION

In accordance with the Regulations on Enterprises with Foreign Investment of China and their articles of association, the Company's subsidiaries, being foreign invested enterprises established in China, are required to provide for certain statutory reserves, namely general reserve fund, enterprise expansion fund and staff welfare and bonus fund, all of which are appropriated from net profit as reported in their PRC statutory accounts. The Company's subsidiaries are required to allocate at least 10% of their after-tax profits to the general reserve fund until such fund has reached 50% of their respective registered capital. Appropriations to the enterprise expansion fund and staff welfare and bonus fund are at the discretion of the board of directors of the Company's subsidiaries.

In accordance with the PRC Company Law, the Company's VIEs must make appropriations from their after-tax profits as reported in their PRC statutory accounts to non-distributable reserve funds, namely statutory surplus fund, statutory public welfare fund and discretionary surplus fund. The Company's VIEs are required to allocate at least 10% of their after-tax profits to the statutory surplus fund until such fund has reached 50% of their respective registered capital. Appropriation to the statutory public welfare fund is 5% to 10% of their after-tax profits as reported in the PRC statutory accounts. Effective from January 1, 2006, under the revised PRC Company Law, appropriation to the statutory public welfare fund is no longer mandatory. Appropriation to discretionary surplus is made at the discretion of the Company's VIE and its subsidiaries.

General reserve fund and statutory surplus fund are restricted to set-off against losses, expansion of production and operation and increasing registered capital of the respective company. Staff welfare and bonus fund and statutory public welfare fund are restricted to the capital expenditures for the collective welfare of employees. These reserves are not allowed to be transferred to the Company in terms of cash dividends, loans or advances, nor can they be distributed except under liquidation.

There were no appropriations to reserves by the Company other than the Company's subsidiaries in the PRC during any of the periods presented. As a result of these laws, approximately \$Nil and \$767,948 as of December 31, 2006 and 2007, respectively, was not available for distribution. During the year ended December 31, 2007, \$767,948 was appropriated from retained earnings to the statutory surplus reserve.

17. RESTRICTED NET ASSETS

Under PRC laws and regulations, there are certain restrictions on the Company's PRC subsidiaries and VIE with respect to transferring certain of their net assets to the Company either in the form of dividends, loans, or advances. Amounts restricted include paid up capital and reserves of the Company's PRC subsidiaries, totaling approximately \$54,949,065 as of December 31, 2007.

18. SUBSEQUENT EVENT

In March 2008, the Company granted options and restricted shares to purchase an aggregate of 650,000 common shares to employees and consultants under the Plan.

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(Amounts in U.S. dollars (\$), except number of shares)

	December 31, 2006	December 31, 2007
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 876,378	\$ 101,949,141
Due from subsidiary	6,041,201	5,950,390
Prepaid expense and other current asset	41,295	318,922
Total current assets	\$ 6,958,874	\$ 108,218,453
Investment in subsidiary and variable interest entity	8,867,260	58,284,253
TOTAL ASSETS	\$ 15,826,134	\$ 166,502,706
LIABILITIES, MEZZANINE EQUITY AND SHAREHOLDERS EQUITY		
Current Liabilities:		
Accrued expenses and other current liabilities	\$ 24,141	\$ 2,473,887
Total liabilities	\$ 24,141	\$ 2,473,887
Mezzanine equity		
Series A convertible redeemable preferred shares (\$0.0001 par value; 14,250,000 shares authorized, issued and outstanding as of December 31, 2006 (liquidation value: \$21,375,000))	\$ 15,220,327	\$
Shareholders equity		
Common shares (\$0.0001 par value; 50,000,000 and 200,000,000 shares authorized; 22,000,000 and 68,386,838 shares issued and outstanding as of December 31, 2006 and 2007, respectively)	2,200	6,839
Additional paid-in capital	6,136,689	163,820,443
Accumulated deficit	(5,557,223)	(2,789,127)
Accumulated other comprehensive income		2,990,664
Total shareholders equity	\$ 581,666	\$ 164,028,819
TOTAL LIABILITIES, MEZZANINE EQUITY AND SHAREHOLDERS EQUITY	\$ 15,826,134	\$ 166,502,706

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VISIONCHINA MEDIA INC.

CONDENSED FINANCIAL INFORMATION OF REGISTRANT SCHEDULE I

STATEMENT OF CHANGES OF SHAREHOLDERS EQUITY

(Amounts in U.S. dollars (\$))

	For the period from January 27, 2006 (date of incorporation) to, December 31, 2006	For the year ended December 31, 2007
General and administrative expense	(80,052)	(346,777)
Equity in income (loss) of subsidiary and variable interest entity	(3,951,674)	9,426,329
Operating income (loss)	(4,031,726)	9,079,552
Interest income	57,836	313,806
Net income (loss)	(3,973,890)	9,393,358
Deemed dividend on convertible redeemable preferred shares	(1,583,333)	(6,625,262)
Net income (loss) attributable to holders of common shares	(5,557,223)	2,768,096

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VISIONCHINA MEDIA INC.

CONDENSED FINANCIAL INFORMATION OF REGISTRANT SCHEDULE I

STATEMENT OF CHANGES OF SHAREHOLDERS EQUITY

(Amounts in U.S. dollars (\$), except number of shares)

	Common shares		Additional paid-in capital	Accumulated Deficit	Accumulated other comprehensive income	Total shareholders equity	Comprehensive income (loss)
	Number	Amount					
Issue of common shares	22,000,000	2,200	6,057,937			6,060,137	
Share-based compensation			78,752			78,752	
Net loss				(3,973,890)		(3,973,890)	(3,973,890)
Deemed dividend on convertible redeemable preferred shares				(1,583,333)		(1,583,333)	
Balance at December 31, 2006	22,000,000	2,200	6,136,689	(5,557,223)		581,666	
Issuance of common shares pursuant to initial public offering	13,500,000	1,350	100,438,650			100,440,000	
Direct offering expenses			(3,725,432)			(3,725,432)	
Conversion of redeemable preferred shares to common shares	32,139,088	3,214	60,106,814			60,110,028	
Exercise of share options	747,750	75	642,360			642,435	
Share-based compensation			221,362			221,362	
Cumulative translation adjustment					2,990,664	2,990,664	2,990,664
Net income				9,393,358		9,393,358	9,393,358
							12,384,022
Deemed dividend on convertible redeemable preferred shares				(6,625,262)		(6,625,262)	
Balance at December 31, 2007	68,386,838	6,839	163,820,443	(2,789,127)	2,990,664	164,028,819	

Table of Contents**VISIONCHINA MEDIA INC.****CONDENSED FINANCIAL INFORMATION OF REGISTRANT SCHEDULE I****STATEMENT OF CASHFLOWS**

(Amounts in U.S. dollars (\$))

	For the period, From January 27, 2006 (date of incorporation) to December 31, 2006	For the year ended December 31, 2007
Cash flows from operating activities:		
Net income (loss)	(3,973,890)	9,393,358
Adjustments to reconcile net loss to net cash used in operating activities:		
Equity in loss (income) of investee companies	3,951,674	(9,426,329)
Share-based compensation cost	78,752	221,362
Changes in assets and liabilities, net of effects of acquisitions:		
Due from subsidiaries	(6,041,201)	(2,424,939)
Accrued expense and other current liabilities	24,141	2,449,746
Prepaid expense and other current assets	(41,294)	(277,627)
Net cash used in operating activities	(6,001,818)	(64,429)
Cash flows from investing activities:		
Investment in a subsidiary	(6,758,798)	(37,000,000)
Net cash used in investing activities	(6,758,798)	(37,000,000)
Cash flows provided by financing activities:		
Proceeds from issuance of common shares, net of issuance cost		99,230,318
Proceeds from issuance of Series A convertible redeemable preferred shares, net of issuance cost	13,636,994	
Proceeds from issuance of Series B convertible redeemable preferred shares, net of issuance cost		38,264,439
Proceeds from exercise of share options		642,435
Net cash provided by financing activities	13,636,994	138,137,192
Net increase in cash and cash equivalents	876,378	101,072,763
Cash and cash equivalents, beginning of period/year		876,378
Cash and cash equivalents, end of period/year	876,378	101,949,141

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VISIONCHINA MEDIA INC.

CONDENSED FINANCIAL INFORMATION OF REGISTRANT SCHEDULE I

(Amounts in U.S. dollars (\$))

Schedule I has been provided pursuant to the requirements of Rules 12-04(a) and 4-08(e)(3) of Regulation S-X, which require condensed financial information as to financial position, changes in financial position and results of operations of a parent company as of the same dates and for the same periods for which audited consolidated financial statements have been presented when the restricted net assets of consolidated and unconsolidated subsidiaries together exceed 25 percent of consolidated net assets as of the end of the most recently completed fiscal year. As of December 31, 2006 and 2007, approximately \$8,355,733 and \$54,949,065 of the registered capital and reserves are not available for distribution, and as such, the condensed financial information of VisionChina Media Inc. has been presented for the period starting from January 27, 2006 (the date of incorporation). No condensed financial information has been presented for additional periods as the Company did not legally exist until January 27, 2006 and the historical consolidated financial statements presented represent those of the Group as if the Company had been incorporated as of the earliest period presented.

Basis of Presentation

For the purposes of the presentation of the parent company only financial information, the Company records its investment in subsidiaries under the equity method of accounting as prescribed in APB opinion No. 18, The Equity Method of Accounting for Investments in Common Stock . Such investment is presented on the balance sheet as Investment in Subsidiaries and 100% of the subsidiaries profit or loss as Equity in profit or loss of subsidiary companies on the statement of operations and comprehensive income.

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8,000,000 American Depositary Shares

VisionChina Media Inc.

Representing 8,000,000 Common Shares

Credit Suisse

Morgan Stanley

Merrill Lynch & Co.

Oppenheimer & Co.

Susquehanna Financial Group, LLLP

Table of Contents**PART II****INFORMATION NOT REQUIRED IN PROSPECTUS****ITEM 6. INDEMNIFICATION OF DIRECTORS AND OFFICERS.**

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Cayman Islands courts to be contrary to public policy, such as to provide indemnification against civil fraud or the consequences of committing a crime. Our Articles of Association provide for indemnification of officers and directors for losses, damages, costs and expenses incurred in their capacities as such, except through their own fraud, dishonesty, willful neglect or default.

Pursuant to the indemnification agreements, the form of which has been filed as Exhibit 10.2 to this Registration Statement, we have agreed to indemnify our directors and officers against certain liabilities and expenses incurred by such persons in connection with claims made by reason of their being such a director or officer.

The form of Underwriting Agreement filed as Exhibit 1.1 to this Registration Statement will also provide for indemnification of us and our officers and directors.

Insofar as indemnification for liabilities arising under the Securities Act of 1933, as amended (the "Securities Act") may be permitted to directors, officers or persons controlling us pursuant to the foregoing provisions, we have been informed that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

ITEM 7. RECENT SALES OF UNREGISTERED SECURITIES.

During the past three years, we have issued the following securities (including options to acquire our common shares). We believe that each of the following issuances was exempt from registration under the Securities Act in reliance on Regulation S or Rule 701 under the Securities Act or pursuant to Section 4(2) of the Securities Act regarding transactions not involving a public offering.

Purchaser	Date of Sale or Issuance	Title of Security	Number of Securities	Consideration (US\$)	Underwriting Discount and Commission
Limin Li	February 9, 2006				
	April 12, 2006	(a)			
	August 30, 2007	(d)	15,750,000 ⁽¹⁾	⁽²⁾	n/a
Yanqing Liang	February 9, 2006				
	April 12, 2006	(a)	6,600,000	⁽²⁾	n/a
OZ Master Fund, Ltd.	April 12, 2006	(b)	6,777,300	6,777,300	n/a
OZ Asia Master Fund, Ltd.	April 12, 2006	(b)	6,895,575	6,895,575	n/a
OZ Global Special Investments Master Fund, L.P.	April 12, 2006	(b)	577,125	577,125	n/a
Milestone Mobile TV Media Holdings I Limited	March 9, 2007				
	July 31, 2007	(c)	3,130,590	6,999,999	n/a
Milestone Mobile TV Media Holdings II Limited	March 9, 2007				
	July 31, 2007	(c)	3,130,590	6,999,999	n/a
Milestone Mobile TV Media Holdings III Limited	March 9, 2007				
	July 31, 2007	(c)	447,228	1,000,002	n/a
Milestone Mobile TV Media Holdings IV Limited	March 9, 2007	(c)	1,341,682	3,000,001	n/a

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IPROP Holdings Limited	July 31, 2007				
	March 9, 2007				
GSPS Asia Limited	July 31, 2007	(c)	4,472,272	10,000,000	n/a
	March 9, 2007				
Directors, Officers and Employees of the Registrant	July 31, 2007	(c)	5,366,726	11,999,999	n/a
	(3)	(d)	3,615,739	n/a	n/a
Consultants of the Registrant	(3)	(d)	2,374,900	n/a	n/a
Employees of the Registrant	November 20, 2007	(a)	710,750	550,750	n/a
Employees and consultants	Varies dates	(d)(e)	868,000	n/a	n/a

- (1) Includes one common share issued to Mapcal Limited on January 27, 2006, and transferred to Mr. Li on February 9, 2006, and includes 350,000 common shares issuable upon the exercise of options to purchase our common shares granted to Mr. Li on August 30, 2007.

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- (2) Mr. Li and Ms. Liang originally invested an aggregate of RMB50 million in CDMTV. In connection with the establishment of our company and the contractual arrangements between our company, on the one hand, and CDMTV, Mr. Li and Ms. Liang, on the other hand, we obtained control of CDMTV and issued our common shares to Mr. Li and Ms. Liang.
- (3) The options to purchase common shares of the registrant were granted on various dates from April 15, 2006 to August 31, 2007
 - (a) Common shares
 - (b) Series A preferred shares
 - (c) Series B preferred shares
 - (d) Options to purchase common shares
 - (e) Restricted shares

ITEM 8. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

(a) Exhibits

See Exhibit Index beginning on page II-6 of this registration statement.

(b) Financial Statement Schedules

Schedules have been omitted because the information required to be set forth therein is not applicable or is shown in the Consolidated Financial Statements or the Notes thereto.

ITEM 9. UNDERTAKINGS.

The undersigned registrant hereby undertakes to provide to the underwriter at the closing specified in the underwriting agreements, certificates in such denominations and registered in such names as required by the underwriter to permit prompt delivery to each purchaser.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the registrant pursuant to the provisions described in Item 6, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

The undersigned registrant hereby undertakes that:

- (1) For purposes of determining any liability under the Securities Act, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant under Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.
- (2) For the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

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(3) For the purpose of determining liability under the Securities Act of 1933 to any purchaser, each prospectus filed pursuant to Rule 424(b) as part of a registration statement relating to an offering, other than registration statements relying on Rule 430B or other than prospectuses filed in reliance on Rule 430A, shall be deemed to be part of and included in the registration statement as of the date it is first used after effectiveness, provided, however, that no statement made in a registration statement or prospectus that is part of the registration statement or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such first use, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such date of first use.

(4) For the purpose of determining liability of the registrant under the Securities Act of 1933 to any purchaser in the initial distribution of the securities, the undersigned registrant undertakes that in a primary offering of securities of the undersigned registrant pursuant to this registration statement, regardless of the underwriting method used to sell the securities to the purchaser, if the securities are offered or sold to such purchaser by means of any of the following communications, the undersigned registrant will be a seller to the purchaser and will be considered to offer or sell such securities to such purchaser:

(i) Any preliminary prospectus or prospectus of the undersigned registrant relating to the offering required to be filed pursuant to Rule 424;

(ii) Any free writing prospectus relating to the offering prepared by or on behalf of the undersigned registrant or used or referred to by the undersigned registrant;

(iii) The portion of any other free writing prospectus relating to the offering containing material information about the undersigned registrant or its securities provided by or on behalf of the undersigned registrant; and

(iv) Any other communication that is an offer in the offering made by the undersigned registrant to the purchaser.

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SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form F-1 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in Shenzhen, People's Republic of China, on August 1, 2008.

VISIONCHINA MEDIA INC.

By:
Name: **Limin Li**
Title: **Chairman of the Board of Directors and**
Chief Executive Officer

POWER OF ATTORNEY

Each person whose signature appears below constitutes and appoints Limin Li and Dina Liu as attorneys-in-fact with full power of substitution, for him or her in any and all capacities, to do any and all acts and all things and to execute any and all instruments which said attorney and agent may deem necessary or desirable to enable the registrant to comply with the Securities Act of 1933, as amended (the "Securities Act"), and any rules, regulations and requirements of the Securities and Exchange Commission thereunder, in connection with the registration under the Securities Act of American depositary shares and common shares of the registrant (together, the "Shares"), including, without limitation, the power and authority to sign the name of each of the undersigned in the capacities indicated below to the Registration Statement on Form F-1 (the "Registration Statement") to be filed with the Securities and Exchange Commission with respect to such Shares, to any and all amendments or supplements to such Registration Statement, whether such amendments or supplements are filed before or after the effective date of such Registration Statement, to any related Registration Statement filed pursuant to Rule 462(b) under the Securities Act, and to any and all instruments or documents filed as part of or in connection with such Registration Statement or any and all amendments thereto, whether such amendments are filed before or after the effective date of such Registration Statement; and each of the undersigned hereby ratifies and confirms all that such attorney and agent shall do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act, this Registration Statement has been signed by the following persons in the capacities and on August 1, 2008.

Signature	Title
/s/ Limin Li	Chairman of the Board of Directors and
Limin Li	Chief Executive Officer
	(principal executive officer)
/s/ Yanqing Liang	Director
Yanqing Liang	
/s/ William Decker	Director
William Decker	
/s/ Xisong Tan	Director
Xisong Tan	

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Signature	Title
/s/ Yunli Lou	Director
Yunli Lou	
/s/ Dina Liu	Chief Financial Officer (principal financial and accounting officer)
Dina Liu	
/s/ Donald J. Puglisi	Authorized U.S. Representative
Name: Donald J. Puglisi	
Title: Managing Director	
Puglisi & Associates	

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VISIONCHINA MEDIA INC.

EXHIBIT INDEX

Exhibit Number	Description of Document
1.1*	Form of Underwriting Agreement.
3.1**	Memorandum and Articles of Association of VisionChina Media Inc.
4.1**	Form of American Depositary Receipt of VisionChina Media Inc.
4.2**	Specimen Certificate for Common Shares of VisionChina Media Inc.
4.3**	Form of Deposit Agreement among the Registrant, the depository and holders and beneficial owners from time to time of the American Depositary Shares issued thereunder.
4.4**	Share Purchase Agreement, dated April 12, 2006, in respect of the sale of Series A preferred shares of the Registrant.
4.5**	Share Purchase Agreement, dated March 9, 2007, in respect of the sale of Series B preferred shares of the Registrant.
4.6**	Shareholders Agreement, dated April 12, 2006, among the Registrant and certain investors in Registrant's Series A preferred shares.
4.7**	Amended and Restated Shareholders Agreement, dated March 9, 2007, among the Registrant and certain investors in Registrant's Series A preferred shares and certain investors in Registrant's Series B preferred shares.
4.8**	Amendment No. 1 to the Amended and Restated Shareholders Agreement, dated November 8, 2007, among the same parties.
5.1	Opinion of Maples and Calder regarding the validity of the common shares being registered.
8.1	Opinion of Simpson Thacher & Bartlett LLP regarding certain U.S. tax matters.
8.2*	Opinion of Grandall Legal Group regarding certain PRC tax matters.
10.1**	Registrant's 2006 Share Incentive Plan.
10.2**	Form of Indemnification Agreement with the Registrant's directors.
10.3**	Translation of Loan Agreement dated February 15, 2007 among China Digital Technology (Shenzhen) Co., Ltd. and Limin Li and Yanqing Liang.
10.4**	Translation of Loan Agreement dated March 31, 2006 among China Digital Technology (Shenzhen) Co., Ltd. and Limin Li and Yanqing Liang.
10.5**	Translation of Technology Service and Management Agreement dated February 15, 2007 between China Digital Technology (Shenzhen) Co., Ltd. and China Digital Mobile Television Co., Ltd.
10.6**	Translation of Technology Service and Management Agreement dated March 31, 2006 between China Digital Technology (Shenzhen) Co., Ltd. and China Digital Mobile Television Co., Ltd.
10.7**	Translation of Domain Name License Agreement dated February 15, 2007 between China Digital Technology (Shenzhen) Co., Ltd. and China Digital Mobile Television Co., Ltd.
10.8**	Translation of Domain Name License Agreement dated March 31, 2006 between China Digital Technology (Shenzhen) Co., Ltd. and China Digital Mobile Television Co., Ltd.
10.9**	Translation of Option Agreement dated February 15, 2007 among China Digital Technology (Shenzhen) Co., Ltd. and Limin Li and Yanqing Liang.

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Exhibit Number	Description of Document
10.10**	Translation of Option Agreement dated March 31, 2006 among China Digital Technology (Shenzhen) Co., Ltd. and Limin Li and Yanqing Liang.
10.11**	Translation of Proxy Letter dated March 31, 2006 and Amendment to Proxy Letter dated February 15, 2007 of Limin Li.
10.12**	Translation of Proxy Letter dated March 31, 2006 and Amendment to Proxy Letter dated February 15, 2007 of Yanqing Liang.
10.13**	Translation of Equity Pledge Agreement dated February 15, 2007 among China Digital Technology (Shenzhen) Co., Ltd. and Limin Li and Yanqing Liang.
10.14**	Translation of Equity Pledge Agreement dated March 31, 2006 among China Digital Technology (Shenzhen) Co., Ltd. and Limin Li and Yanqing Liang.
10.15**	Translation of Cooperation Agreement dated October 13, 2006 between China Digital Mobile Television Co., Ltd. and Beijing Beiguang Media Mobile Television Co., Ltd.
10.16**	Translation of Advertising Time on Bus Mobile Television Platform in Shenzhen Exclusive Agency Agreement dated December 31, 2006 between China Digital Mobile Television Co., Ltd. and Shenzhen Mobile Television Co., Ltd.
21.1	Subsidiaries of the Registrant.
23.1	Consent of Deloitte Touche Tohmatsu CPA Ltd., an Independent Registered Public Accounting Firm.
23.2	Consent of Maples and Calder (included in Exhibit 5.1).
23.3	Consent of Simpson Thacher & Bartlett LLP (included in Exhibit 8.1).
23.4	Consent of American Appraisal.
23.5	Consent of CTR Market Research
24.1	Powers of Attorney (included on signature page).
99.1**	Code of Business Conduct and Ethics of the Registrant.
99.2*	Opinion of Grandall Legal Group

* To be filed.

** Incorporated by reference to the corresponding exhibit to the registrant's registration statement (File No. 333-147275), as amended, initially filed with the Commission on November 9, 2007).

Confidential treatment has been requested for portions of this document.